MELCOR DEVELOPMENTS LTD.

# Annual Report 2005

It's All About Community

## Corporate Profile

Our mission at Melcor is to be Alberta's premier real estate development and management company. We achieve this by continually striving to meet the needs of our customers, shareholders, fellow employees and business associates.

Melcor Developments Ltd. ("The Company" or "Melcor") is primarily engaged in the following activities:

- the acquisition, planning and development of urban communities and the subsequent marketing and sale of single family, multiple family and commercial/industrial lots in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge, Red Deer and in the City of Kelowna;
- the development of income producing properties in Alberta;
- the ownership and management of income producing properties in Western Canada; and
- the ownership and management of two championship golf courses in the Edmonton area.

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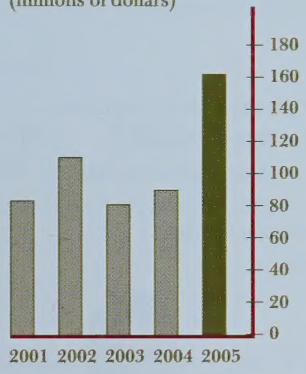
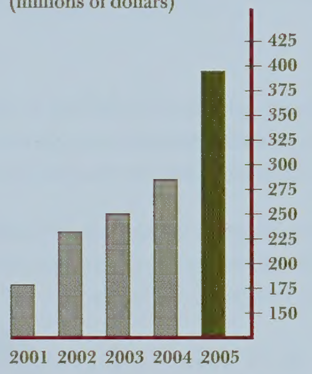
## Financial Highlights

| ($) | 2005 | 2004 |
|---|---|---|
| Revenue | **161,500,000** | 88,339,000 |
| Earnings | **41,776,000** | 19,437,000 |
| Assets | **396,113,000** | 282,348,000 |
| Shareholders' equity | **186,328,000** | 153,541,000 |
| **Per Common Share** | | |
| Basic earnings | **13.80** | 6.30 |
| Diluted earnings | **13.50** | 6.15 |
| Book value per share | **60.58** | 50.27 |
| Dividends paid | **2.50** | 1.20 |

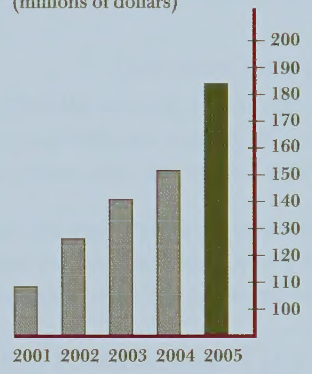
**Revenue**
(millions of dollars)



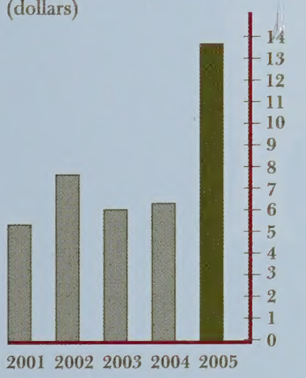

**Assets**
(millions of dollars)



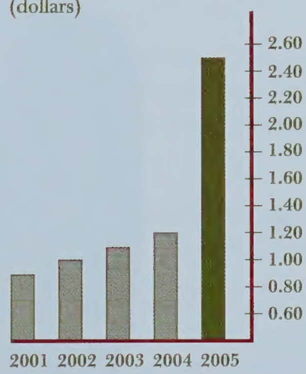

**Shareholders' Equity**
(millions of dollars)



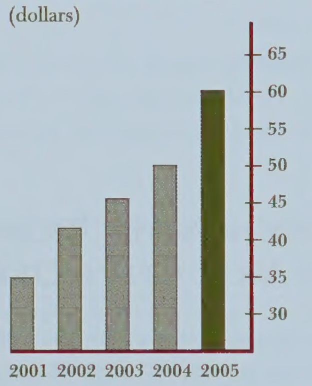

**Earnings Per Share**
(dollars)



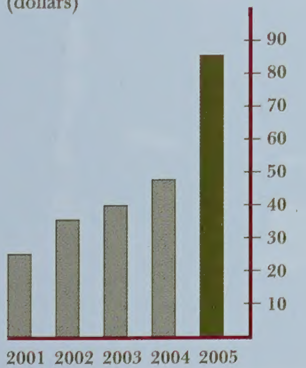

**Dividends Per Share**
(dollars)



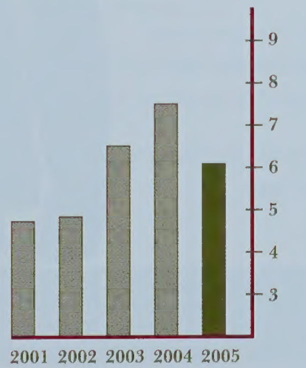

**Book Value Per Share**
(dollars)



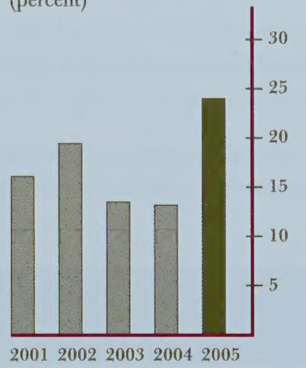

**Average Share Price**
(dollars)




**Price Earnings Ratio** *




**Return on Equity** *
(percent)




* See performance measures on page 42 for definitions on these calculations.

## Message from the Executive Chairman

On behalf of the Board of Directors, I am pleased to report that 2005 was a record year for the Company. Net earnings for the year were $13.80 per share compared to $6.30 per share in 2004. Other significant achievements realized throughout the past year include:

### *Planning for Success*

One of the prime responsibilities of our Board of Directors is to ensure the Company has in place a Business Plan and a Budget. The process involves working with management to discuss the business environment, plan assumptions, risk management, and review and approve business goals and detailed financial budgets. I can report that management was successful in exceeding its financial objectives for 2005. Also, the Company realizes the importance of acquiring lands for future development and to this end the Board of Directors approved the purchase of approximately 1000 acres of land. The record revenue and earnings achieved this past year were due in part, to the strategic real estate purchases in years past.

### *Increased Dividends*

Shareholders have benefited from the Company's success through increased dividends over the past eleven consecutive years. Dividends totaling $1.50 per share were declared in 2005 compared to $1.20 per share in 2004. Additionally, the Company declared a special dividend of $1.00 per share which was related to a material land sale during the third quarter which netted earnings of $4.43 per share. This significant increase in dividends confirms the Company's objective to provide Shareholders with a reasonable return on their investment.

### *Giving to the Community*

In the year 2005, Melcor exceeded IMAGINE's corporate giving guidelines and donated in excess of 1% of annual pre-tax profit to charitable organizations. The Company also continues to support and encourage employee volunteerism. The Board is proud of both the financial commitment the Company has made to many charitable organizations and the volunteer efforts of our employees in enhancing our community.

The Directors recognize with gratitude and appreciation the continuing outstanding contributions of its employees to the Company's success and growth. I also thank Melcor's Board of Directors for their guidance, our customers and suppliers for their business and support, as well as our Shareholders for their confidence and loyalty.

Sincerely,

Timothy C. Melton
Executive Chairman

## Message from the President & Chief Executive Officer

Melcor has enjoyed an exceptionally successful year in 2005, fueled by a strong Alberta economy and exceptional growth in real estate values in all sectors and regions. Real estate markets have been driven by strong economic growth, historically low interest rates and an abundance of consumer, investor and institutional demand for quality real estate.

Melcor has returned record results to its shareholders with record earnings, record share price and record dividends (including a special dividend of $1.00 per share).

Melcor has continued its strong relationships with its lender and joint venture participants meeting or exceeding its commitments and forecasts.

**Left - Right: Tim Melton** – Executive Chairman, **Michael Shabada** – Vice-President, Finance and Chief Financial Officer, **Ralph Young** – President and Chief Executive Officer

Melcor's staff and management have performed with exceptional skill and effort, increasing productivity and total results in every division and region.

Melcor has continued to be Alberta's premier community developer introducing many new communities across Alberta, with strong acceptance by our builder customers and new families desiring accommodation.

Melcor has added many new strategic assets to our portfolio of real estate. The purchase of the Royal Bank Building in Edmonton has increased our investment property portfolio to over 1 million square feet under management. Land inventory of 993 acres was acquired in 2005 in Edmonton, Calgary, Red Deer, Lethbridge and Kelowna regions. In addition, 96 acres of land were optioned in Airdrie. New commercial development projects were initiated in Leduc and Chestermere and the company also acquired a partially constructed golf course in Kelowna, B.C.

Economic and industry forecasts predict continuing strong real estate opportunities in Melcor's areas of business. We anticipate business demand in 2006 to remain at levels similar to 2005 levels in Alberta and B.C.

Our Melcor team is indebted to all of our stakeholders for the trust and confidence they have shown in the Company. We are proud to build value for our shareholders and partners, build sustainable communities for our customers and suppliers, and build enduring relationships amongst our employees and communities.

I refer you to the Management Discussion and Analysis for more detailed explanations.

Sincerely,

Ralph Y-e

Ralph B. Young
President and Chief Executive Officer

## Message from the Vice-President, Finance & Chief Financial Officer

Fiscal 2005 was Melcor's best year in the history of the Company in terms of revenue, earnings, asset growth, dividends paid and in market capitalization. The Company's shares, which are traded on the TSX, reached a high of $120.00 per share during 2005 and have traded as high as $165.00 during mid February of 2006.

The Performance Chart on page 26 of this annual report, illustrates Melcor's five-year cumulative total shareholder return, assuming an initial investment of $100 with all dividends reinvested versus the return on the TSX 300 Composite Index and the TSX Capped Real Estate Index. Over the past 5 years, the investment in Melcor has grown to $1,305 compared to the TSX 300 Composite Index growth of $113 and the TSX Capped Real Estate Index growth of $204.

Assets and shareholder equity have grown to record levels but with the high level of earnings for the Company, both return on equity and return on assets (see performance measures at the back of the annual report) were at their highest level in many years.

The Company continues to have a strong relationship with its major lender and it endeavors to nurture relationships with other lenders. Our debt to equity ratio of 1.13 to 1 and is beginning to approach the Company's acceptable upper range of 1.25 to 1. While at a higher level than in past years, the Company has many assets which have fair market values that are higher than their historical cost. The ratio would be lower if the Company was able to include the unrealized equity from the fair value of the assets. Further, the Company's ability to service its debt is still very strong.

The Company was successful in raising capital from mortgage activities during the year and will be busy in 2006 as it expects to raise additional mortgage financing in the amount of $16 million from the refinancing of 6 properties.

The annual meeting will be held on April 12, 2006 at 11:00 am at The Fairmont Hotel Macdonald in Edmonton. I would invite all shareholders and interested parties to review this annual report and to contact me with any comments or questions regarding the information that is published herein.

Sincerely

Michael Shabada

Michael D. Shabada, C.A.
Vice-President, Finance and Chief Financial Officer
Corporate Secretary

# Melcor's New Developments

During 2005 the Company acquired or commenced development on several strategic assets, including those depicted below.

In June 2005 the Company acquired the Black Mountain golf and residential community, which encompasses approximately 300 acres in Kelowna, British Columbia. The first two phases of the residential development are serviced and sales will commence in 2006. The first 9 holes of the 18 hole championship golf course have been constructed and development of the back nine holes will be underway in 2006.

Chestermere Station has become the retail and institutional towne centre for Chestermere, a town of 8,500 residents located ten minutes east of Calgary. Phase I is near completion with a Safeway market and a new town hall on site. Phase II will see the development of a waterfront retail promenade.

Magrath is a multi use residential community in the south west of Edmonton. This well situated community offers easy access to various outdoor recreational areas. It encompasses 160 acres and sales commenced in 2005.

Lewis Estates golf course will have a new clubhouse in 2006. This new clubhouse replaces a temporary facility that serviced the golf course for 12 years. Construction commenced in the fall of 2005 and completion is scheduled for the spring of 2006.

Black Mountain – Recreational Property – Kelowna


Chestermere Station Towne Centre – Property Development – Chestermere


Magrath – Community Development – Edmonton

Crowfoot West is a commercial business centre located in the northwest of Calgary. The centre is a 115,000 square foot, four-storey, multi-tenant commercial building that offers various amenities as well as spectacular views of downtown Calgary and the Rocky Mountains. Tenant occupancy is estimated to occur in May 2007.

Legacy Ridge is located in the northern area of Lethbridge, Alberta. This new residential community pays tribute to the women of Lethbridge who have been recognized as community leaders. Streets in Legacy Ridge have been named in honor of these inspirational individuals. The attached photo captures the grand opening of Legacy Ridge by the Mayor, associated builders and community leaders.

The Royal Bank building, located in the heart of Edmonton, was acquired by Melcor in mid 2005. This asset offers 135,000 square feet of prime office and retail space with 330 parking stalls. The acquisition includes an adjacent 24,000 square foot lot for future development which fronts on Jasper Avenue.


Lewis Estates Clubhouse – Recreational Property – Edmonton


Crowfoot West Business Centre – Property Development – Calgary


Legacy Ridge – Community Development – Lethbridge


Royal Bank – Investment Property – Edmonton

## Board of Directors

Front Row (Left - Right)

**William D. Grace** - *Corporate Director*

**Timothy C. Melton**, *Executive Chairman - Melcor Developments Ltd.*

Back Row (Left - Right)

**Ross A. Grieve** - *President & CEO - PCL Construction Group Inc.*

**Ralph B. Young** - *President & CEO - Melcor Developments Ltd.*

**Lou D. Hyndman** - *Partner, Field LLP Barristers & Solicitors*

**Bruce Saville** - *President, Saville Interest Group Inc.*

**Garry Holmes** - *Corporate Director*

**Andrew J. Melton** - *Partner, Avison Young Commercial Real Estate*

## Senior Management Team

Front Row (Left - Right)

**Karen Albarda** - *Controller*

**Ralph B.Young** - *President & CEO*

Back Row (Left - Right)

**Michael D. Shabada** - *Vice-President,* Finance & CFO

**W. Peter Daly** - *Vice-President, Land Development Division*

**Timothy C. Melton** - *Executive Chairman*

**Darin Rayburn** - *Vice-President, Investment Property Division*

**Brett A. Halford** - *Vice-President, Administration*

**Brian Baker** - *Vice-President, Property Development Division*

**Dave Poppitt** - Vice President Special Projects Community Development Division
**30 years of service**

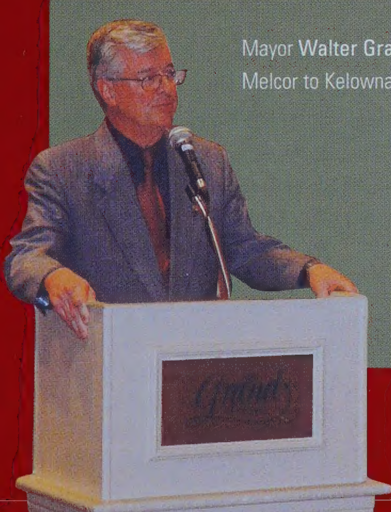
**Emma Pears** - Senior Administrative Assistant - Investment Property Division
**25 years of service**

**Karen Albarda** - Controller
**25 years of service**

## Melcor Client Golf Tournament

(Left Photo Left - Right)
**Henry Rodier** - Coventry Homes
**George Russ** - Park Paving
**Del Rackette** - Parkwood Homes
**Michael Gendron** - Mancap Group &
**Samir Hanna** - Parkwood Homes

(Bottom Photo Left - Right)
**Sam Kravinchuk** - I Samuel Kravinchuk Barrister & Solicitor
**Lewis Nakatsui** - Mancap
**Jim Keegan** - CIBC
**Tim Melton** - Melcor



Mayor **Walter Gray** welcomes Melcor to Kelowna – October 2005

# Management's Discussion and Analysis – Table of Contents

# Management's Discussion and Analysis ("MD&A")
# February 24, 2006

The following discussion and analysis of the financial results and position of Melcor Developments Ltd. should be read in conjunction with the audited financial statements and notes to those statements for the years ending December 31, 2005 and 2004. The financial data provided has been prepared in accordance with Canadian Generally Accepted Accounting Principles. The Company's reporting currency is Canadian dollars. Certain statements in this discussion can be considered forward looking, and readers are cautioned that such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contained in these forward looking statements. These risks and uncertainties are described elsewhere in this discussion and in other regulatory filings.

Additional information including the Annual Information Form and Management Information Circular is available from SEDAR at www.sedar.com.

The balance sheet is presented without reference to current assets or current liabilities. The operating cycle of an entity involved in real estate investment and development is normally considered to be longer than one year. Thus, the concept of current assets and current liabilities is not considered relevant and there is no need to segregate the balance sheet to disclose assets or liabilities which are expected to be settled within the immediately following year.

## Basic Activities

Melcor Developments Ltd. ("Melcor" or "the Company"), which traces its history back to 1923, has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. It has survived and prospered for over 80 years, due to stable and committed ownership and loyal and dedicated staff who are focused on the real estate industry. Melcor primarily operates in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge and Red Deer. It also has assets in Kelowna (British Columbia), Regina (Saskatchewan) and in Arizona (USA). Its diversified operations include:

- the acquisition of raw land, which is held for future development until market conditions warrant the planning, servicing and marketing of urban communities which are then sold in the form of single-family, multiple-family and commercial/industrial lots;
- the development of income producing properties in Alberta;
- the ownership and management of income producing properties in Western Canada including a manufactured home community in Calgary; and
- the ownership and management of two championship golf courses in the Edmonton area.

### Mission Statement

Melcor's mission is to be Alberta's premier real estate development and management Company by successfully meeting the needs of our:

- Shareholders, partners and lenders;
- Customers and suppliers;
- Selves and fellow employees; and
- Communities.

## Overall Performance

### Results of Operations

Net earnings for the year were $41,776,000 compared to prior year earnings of $19,437,000. Basic earnings per share for 2005 was $13.80, a 119% increase over 2004 earnings per share of $6.30. Fiscal 2005 represents the highest earnings per share in the Company's history, primarily due to the results of the Community Development Division. The fourth quarter results represent the second highest quarterly earnings per share in the Company's history (please refer to page 18 of this MD&A for 4th quarter commentary). The highest quarterly earnings for the Company ($6.13 basic) occurred during the third quarter of 2005 where the Company recorded a material transaction which generated revenue of $24,693,000 and earnings after tax of $13,400,000 or $4.43 per share.

| Financial Highlights ($) | Year Ended Dec. 31, 2005 | Year Ended Dec. 31, 2004 | Three Months Ended Dec. 31, 2005 | Three Months Ended Dec. 31, 2004 |
|---|---|---|---|---|
| Revenue | **161,500,000** | 88,339,000 | **69,506,000** | 35,891,000 |
| Earnings | **41,776,000** | 19,437,000 | **15,386,000** | 9,709,000 |
| Assets | **396,113,000** | 282,348,000 | **396,113,000** | 282,348,000 |
| Shareholders' equity | **186,328,000** | 153,541,000 | **186,328,000** | 153,541,000 |
| **Per Share** | | | | |
| Basic earnings | **13.80** | 6.30 | **5.07** | 3.16 |
| Diluted earnings | **13.50** | 6.15 | **4.95** | 3.06 |
| Book value | **60.58** | 50.27 | **60.58** | 50.27 |

## Summary of Quarterly Results

Financial information for the prior eight fiscal quarters is as follows:

| | Revenues ($000s) | Net Earnings ($000s) | Earnings Per Common Share Basic ($) | Diluted ($) |
|---|---|---|---|---|
| March 31, 2004 | 15,624 | 2,746 | .89 | .88 |
| June 30, 2004 | 15,356 | 2,909 | .94 | .92 |
| September 30, 2004 | 21,468 | 4,073 | 1.31 | 1.29 |
| December 31, 2004 | 35,891 | 9,709 | 3.16 | 3.06 |
| March 31, 2005 | 15,587 | 2,573 | .86 | .85 |
| June 30, 2005 | 24,052 | 5,297 | 1.74 | 1.73 |
| September 30, 2005 | 52,355 | 18,520 | 6.13 | 5.95 |
| December 31, 2005 | 69,506 | 15,386 | 5.07 | 4.95 |

## Selected Annual Information

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenue | **161,500** | 88,339 | 80,035 | 110,565 | 82,607 |
| Earnings | **41,776** | 19,437 | 18,406 | 23,089 | 15,971 |
| Assets | **396,113** | 282,348 | 251,702 | 231,795 | 177,218 |
| Liabilities | **209,785** | 128,807 | 110,965 | 105,284 | 70,500 |
| Equity | **186,328** | 153,541 | 140,737 | 126,511 | 106,718 |
| ($) | | | | | |
| Basic earnings per share | **13.80** | 6.30 | 6.00 | 7.58 | 5.26 |
| Diluted earnings per share | **13.50** | 6.15 | 5.86 | 7.41 | 5.21 |
| Dividends per share | **2.50** | 1.20 | 1.10 | 1.00 | .90 |

## Corporate Risk

The cyclical nature of the Company's business along with 91% of its assets being located in Alberta, may subject Melcor to greater risks than Companies that are more geographically diversified. Various factors which are not in management's control can impact the Company's business. These factors include:

- interest and inflation rates;
- general economic conditions in the regions in which the Company operates;
- population growth and migration;
- job creation and employment patterns;
- consumer confidence;
- pricing of input costs;
- competitor's strategies;
- government policies, regulations and taxation; and
- availability of financing for real estate assets.

## Community Development Operations

The Community Development Division is responsible for the acquisition, planning, development and marketing of urban communities. Although the Division predominantly develops mixed-use residential communities, it also develops large-scale commercial and industrial centres in the Edmonton and Calgary regions. The majority of residential lots and parcels are sold to selected homebuilders that purchase sites through agreements for sale. Strategic initiatives for 2006 – 2008 include:

- Acquire land inventory and improve the market share of Melcor, primarily in Alberta, and yield acceptable financial returns;
- Investigate further opportunities for expansion in British Columbia and the south-western USA;
- Manage staff resources to facilitate the successful implementation of development activities; and
- Obtain major regulatory approvals in the Calgary Region (i.e. various area structure plans, annexations and advance the planning for a golf course and manufactured home community).

## Operating Review

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenue | **149,246** | 75,359 | 72,556 | 101,422 | 73,778 |
| Cost of sales | **(79,723)** | (43,830) | (42,259) | (62,567) | (44,746) |
| Net operating income (NOI)[1] | **69,523** | 31,529 | 30,297 | 38,855 | 29,032 |
| Interest revenue | **1,449** | 1,545 | 2,130 | 1,569 | 1,360 |
| Interest expense | **(468)** | (225) | (234) | (252) | (328) |
| | **70,504** | 32,849 | 32,193 | 40,172 | 30,064 |
| Administrative expenses | **(3,938)** | (3,260) | (3,198) | (3,746) | (2,823) |
| Divisional earnings | **66,566** | 29,589 | 28,995 | 36,426 | 27,241 |

1 See "Non-GAAP Financial Measures" section

## Selected Financial Benchmarks

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Agreements receivable | **85,335** | 43,508 | 46,904 | 57,094 | 43,704 |
| Land inventory | **201,398** | 163,694 | 141,004 | 116,904 | 88,655 |
| | **286,733** | 207,202 | 187,908 | 173,998 | 132,359 |
| **Debt** | | | | | |
| Bank debt | **16,026** | 10,167 | 1,642 | 839 | 11,929 |
| Provision for land development costs | **29,026** | 18,962 | 15,072 | 13,763 | 6,371 |
| Debt on land inventory | **50,478** | 40,311 | 35,885 | 29,530 | 12,975 |
| | **95,530** | 69,440 | 52,599 | 44,132 | 31,275 |
| Net investment | **191,203** | 137,762 | 135,309 | 129,866 | 101,084 |
| NOI as % of revenue [2] | **46.6%** | 41.8% | 41.8% | 38.3% | 39.4% |
| Divisional earnings as % of net investment [2] | **40.5%** | 21.7% | 21.9% | 31.5% | 28.3% |
| % of assets financed [2] | **33.3%** | 33.5% | 28.0% | 25.4% | 23.6% |

2 See "Calculations" in "Non-GAAP Financial Measures" section

### *Sales Activity & Regional Highlights*

#### a) Sales Activity

Total sales for the Division were $149,246,000 in 2005 versus $75,359,000 in the prior year. Part of the increase is due to a material transaction which was announced at the second quarter. This transaction included the sale of 166 acres for proceeds of $24,693,000. Excluding this transaction, revenue was up by 65% and net operating income as a % of revenue was 39.6%. The Company sold 51% more lots and 46% more acres in the form of multi-family/commercial sites. During the year, thirty one subdivisions registered in 18 communities compared to twenty two subdivisions registered in 15 communities in the prior year.

## Residential Lot Sale History

| (including joint ventures at 100%) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Edmonton | **811** | 520 | 428 | 775 | 437 |
| Red Deer | **520** | 258 | 401 | 455 | 268 |
| Calgary | **260** | 199 | 325 | 504 | 459 |
| Lethbridge | **85** | 118 | 100 | 87 | 48 |
| Arizona | **-** | 13 | 4 | - | 2 |
| | **1,676** | 1,108 | 1,258 | 1,821 | 1,214 |

## Other Land Sales

| (including prorata joint venture interests and intersegment transactions) | Multi-family and Commercial Acres | Multi-family and Commercial Sales ($) | Sale of Non-Strategic Lands (Acres) |
|---|---|---|---|
| **2005** | **54** | **15,842,000** | **426** |
| 2004 | 37 | 8,690,000 | 146 |
| 2003 | 59 | 11,997,000 | - |
| 2002 | 32 | 8,937,000 | 17 |
| 2001 | 44 | 16,653,000 | 152 |

Subject to continuing strong markets, the Division as a whole is expected to perform at levels above its ten year average financial results. Results within individual regions, however, will vary due to:

- the nature of existing land holdings;
- timing of approvals; and
- success in completing strategic new acquisitions.

## b) General Comments

Earnings for 2005 for the Community Development Division exceeded expectations. The average selling price of a lot in 2005 was $94,400 (2004 – $74,000) with joint venture interest at 100% and average selling price per acre net to Melcor for multi-family/commercial sites was $293,000 in 2005 compared to $235,000 in the prior year.

## c) Edmonton Region

The Company has active developments in the Cities of Spruce Grove, Leduc and St. Albert as well as the south west and west end areas of Edmonton. The Region showed a 56% increase in lot sales and an increase in market share. The primary reason for this increase is the strong demand for housing in the capital region as a result of strong economic activity.

The Division purchased 122 acres in Leduc and 262 acres of land in the City of Spruce Grove. A parcel of land in west Edmonton was transferred into a joint venture thus reducing the Company's net interest by 32 acres.

## d) Calgary Region

The Company is active in the Town of Chestermere where most of the Calgary Region's revenue has been realized in the past few years. In 2005 development activities were commenced in Airdrie in a new residential community called Kings Heights and in an industrial development known as Kingsview. Sales were realized in the residential development in 2005 and sales are expected to commence in the industrial development during 2006.

The Company sold 166 acres of non-strategic land near the Calgary airport. It still holds 153 acres for further development in the same vicinity. The Company holds other strategic lands which are awaiting annexation and/or development approvals which will contribute to further sales activity for the Region.

During the year, the Company added 14 acres adjacent to the Westmere Community in Chestermere and entered into an option agreement to purchase 96 acres adjacent to the Kings Heights Community in Airdrie.

## e) Red Deer Region

The Company is primarily active in two communities in the south east part of the City of Red Deer. The Company showed a 101% increase in lot sales in 2005. The primary reason for the increase is due to the strategic location of the lands and the strong economy of the region which has stimulated the demand for housing.

The Company added to its land holdings by purchasing 45 acres in the County of Red Deer adjacent to the City of Red Deer.

## f) Lethbridge Region

The Company is active in the north part of the City of Lethbridge in a new community called Legacy Ridge and in the south part of Lethbridge in a community called Paradise Canyon. The community in the west end of Lethbridge called Willowridge, was completed in 2005. The Company recorded 85 lot sales during the year which is slightly lower than expected.

The Company purchased the 50% interest of its joint venture participant in the Paradise Canyon Community which included 101 acres of land. The Company also purchased 102 acres of land adjacent to that development.

## g) Kelowna Region

The Company purchased a 296 acre development in Kelowna, British Columbia, which had recently received development approval and had commenced construction. The community which is known as Black Mountain, is a residential/golf course community. To date, two phases of residential development have been substantially serviced and the first 9 holes of an 18 hole championship golf course have been constructed. The Company has set up a regional office in Kelowna. The Company expects to record its first sales in this region during the first half of 2006.

The Company also purchased 80 acres in north west Kelowna adjacent to 120 acres of lands currently held on Lake Okanagan. These lands are several years from development.

## h) Arizona Region

During the year, the Company sold all remaining developable lands except for 30 acres in Tucson.

## i) Summary

With housing markets in Alberta predicted to remain strong, it is expected that all regions where the Company operates, will continue with above average results. The Company is positioned to maintain or increase market share in all regions for 2006. The Company projects that sale prices will keep pace with rising input costs.

*Inventory*

### Developed Inventory Carry Forward Schedule

**Residential Lot Sale Inventory**

| (including joint ventures at 100%) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| At beginning of the year | **779** | 677 | 613 | 859 | 1,012 |
| New developments | **1,509** | 1,210 | 1,322 | 1,575 | 1,061 |
| Sales | **(1,676)** | (1,108) | (1,258) | (1,821) | (1,214) |
| | **612** | 779 | 677 | 613 | 859 |

**Multi-Family/Commercial Site Inventory**

| (in acres) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| At beginning of the year | **92** | 80 | 79 | 55 | 60 |
| New developments | **122** | 49 | 60 | 56 | 39 |
| Sales | **(54)** | (37) | (59) | (32) | (44) |
| | **160** | 92 | 80 | 79 | 55 |

### Undeveloped Inventory Carry Forward Schedule

**Land Inventory**

| (in acres) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| At beginning of the year | **6,159** | 5,659 | 5,197 | 4,290 | 4,403 |
| Purchases | **993** | 919 | 820 | 1,201 | 259 |
| Sales | **(426)** | (146) | - | (17) | (152) |
| Developed | **(609)** | (273) | (358) | (277) | (220) |
| | **6,117** | 6,159 | 5,659 | 5,197 | 4,290 |
| Average cost per acre ($) | **20,200** | 17,900 | 16,400 | 13,500 | 10,800 |

The acquisition of land inventory is based upon management's anticipation of market demand and development potential, primarily within five years. The average cost per acre has increased in each of the past four years because the Company has been purchasing lands that are more expensive than the cost of lands which it owns. Land purchases during the last five years are as follows:

**Land Purchases**

| (in acres) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Edmonton | **353** | 465 | 261 | 285 | 100 |
| Calgary | **16** | 165 | 197 | 597 | 122 |
| Red Deer | **45** | 167 | 342 | 160 | 37 |
| Lethbridge | **203** | 122 | - | 50 | - |
| Kelowna | **376** | - | 20 | 119 | - |
| | **993** | 919 | 820 | 1,211 | 259 |
| ($000s) | | | | | |
| Land cost | **29,774** | 22,749 | 26,066 | 34,230 | 7,443 |
| Vendor financing | **(13,035)** | (12,395) | (13,596) | (10,286) | (3,963) |
| Net cash used for acquisitions | **16,739** | 10,354 | 12,470 | 23,944 | 3,480 |

## *Land Holdings*

**Land Inventory by Region**

| | Developed Inventory | | | Undeveloped Inventory |
|---|---|---|---|---|
| | Residential Lots | Residential Acres | Commercial/ Industrial Acres | Acres |
| **Northern Alberta** | | | | |
| Edmonton | 186 | 7 | 9 | 793 |
| Spruce Grove | 103 | - | 10 | 658 |
| County of Parkland | - | - | - | 726 |
| Leduc | 103 | - | 10 | 474 |
| St. Albert | 56 | - | - | 34 |
| **Southern Alberta** | | | | |
| Calgary | 1 | - | 3 | 323 |
| Airdrie | 5 | 4 | 90 | 247 |
| M.D. Rockyview | - | - | - | 1,236 |
| Chestermere | 58 | - | 27 | 74 |
| Lethbridge | 71 | - | - | 385 |
| **Central Alberta** | | | | |
| Red Deer | 27 | - | - | 297 |
| County of Red Deer | - | - | - | 343 |
| **Central British Columbia** | | | | |
| Kelowna | - | - | - | 497 |
| **Arizona** | | | | |
| Tucson | - | - | - | 30 |
| DECEMBER 31, 2005 | 610 | 11 | 149 | 6,117 |
| DECEMBER 31, 2004 | 779 | 19 | 73 | 6,159 |

Undeveloped land inventory is an aggregate of raw land which, in some cases, may be several years from development, and unregistered projects and their related predevelopment costs. Predevelopment costs include the cost of regulatory approvals, planning, engineering and infrastructure servicing. The latter can be significant in instances where utilities or roadways are constructed over expanses of raw land in order to bring services or access to subdivisions that are being developed. Land inventory increased by $37,704,000 primarily due to land acquisitions of $29,774,000 and due to an increase of $18,800,000 in pre-development costs. The non-strategic land sales for 2005, had a relatively low cost base.

## *Financing*

The Division attempts to finance its land acquisition activities by obtaining vendor financing on a portion of the acquisition price. Please see the "Financial Instruments" section of this MD&A for further information.

The Division may also access a credit facility which, on a margined basis, allows for the borrowing of money using agreements receivable and developed land inventory as collateral. Please see the "Liquidity" section of this MD&A for further information.

## *Risk Factors*

Residential lot sales are influenced by the demand for new housing which is impacted by interest rates, growth in employment, immigration, new family units and the size of these units. Our ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations which affect the planning, subdivision and use of land. The lengthy planning and approval process can take up to eighteen months. During this period, the market conditions in general and/or the market for lots in the size and price range in our developments may change.

The timing of revenue recognition is dependant upon the occurrence of plan registrations. Plan registrations are the result of an exacting process. Various interested parties and approval agencies are involved. While associated requirements are generally predictable in terms of certainty of resolution, they are less predictable in terms of timing.

The Company must manage its assets to ensure that it has adequate financial and operational cash flow to support the holding cost of its inventory and land holdings.

Management attempts to mitigate these risks by:

- Developing in the vicinity of major population and employment centres in Alberta where we have developed land for decades;
- Making the strategic acquisition of land for future development a priority;

- Marketing lots in various sizes and price ranges in all regions in which we carry on development programs;
- Monitoring market conditions by maintaining close contacts with our customers, industry associations and forecasting agencies;
- Managing and participating in joint ventures;
- Contracting highly regarded professional consultants as required rather than having them on staff; and
- Practicing an environmental program to minimize risk on acquisitions and development.

## Property Development Operations

The Property Development Division acquires commercial sites from the Community Development Division at fair market value with the goal of creating additional value by developing the sites into revenue producing properties. Once completed, these assets are transferred at fair market value to the Investment Property Division, with a mandate to hold and manage them. The profit earned on transfer, is eliminated upon consolidation.

Strategic initiatives for 2006 – 2008 include:

- To implement the Business Plan for the Division and to meet the Corporate objectives of asset diversification, income growth and stability by commencing new commercial developments on land created through land development activities in Alberta;
- To lease the pad sites in Leduc Common phase 1 and to commence another phase;
- To further the development of Chestermere Station in Chestermere, Alberta and transfer the first phase to the Investment Property Division during the first half of 2006;
- To supervise the construction of the Crowfoot West Business Centre in N.W. Calgary and to further the pre-leasing activities related thereto;
- To initiate construction of the Market at Magrath in SW Edmonton and to add to the pre-leasing activities already booked; and
- To advance projects in Spruce Grove, Red Deer, Airdrie and Calgary.

### Operating Review

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenue | **9,392** | 4,058 | 2,692 | 13,650 | 2,600 |
| Cost of sales | **(6,950)** | (3,582) | (2,296) | (11,533) | (2,230) |
| Net operating income (NOI) [1] | **2,442** | 476 | 396 | 2,117 | 370 |
| Administrative expenses | **(349)** | (263) | (235) | (257) | (128) |
| Divisional earnings | **2,093** | 213 | 161 | 1,860 | 242 |

1 See "Non-GAAP Financial Measures" section

### *Sales Activity*

During the year, all remaining revenue producing properties within the Leduc Common retail development were completed and transferred to the Investment Property Division, with the exception of two pad sites which will remain under the development responsibility of the Property Development Division. The Division also received inter-divisional fees from the management of a 6.7 acre land lease with Rona Inc. in Phase II of Leduc Common.

### *Development Activity*

In addition to the ongoing development of Leduc Common, the Division completed four buildings totalling approximately 30,000 square feet (including joint venture interest at 100%) in Chestermere Station, a 100,000 square foot grocery store-anchored regional shopping centre. As these assets are primarily leased, they will be transferred to the Investment Property Division during the first quarter of 2006. The Company has commenced the construction of the Crowfoot West Business Centre, a 115,000 square foot office/retail project which is within a half block of the Company's existing Crowfoot Business Centre. Construction on several pad sites the Market at Magrath, a 120,000 square foot food-anchored neighbourhood shopping centre, will commence in 2006 and the construction of a strip of commercial retail units is in the planning stage. The Division has two projects that will receive significant planning activity in 2006, namely:

- Westgrove Common – 45,000 square foot retail centre in Spruce Grove, which is adjacent to sites occupied by Real Canadian Superstore and The Home Depot; and
- Kingsview Market – 300,000 square foot regional shopping centre in S.E. Airdrie.

### *Financing*

The Division funds its operations through interim financing from financial institutions or from internal sources. Historically, the Division has been successful in obtaining very competitive long-term fixed rate financing terms by waiting until the asset has been built and substantially leased. Typically, the Company obtains financing on behalf of the Investment Property Division which attempts to achieve a 75% loan to value ratio based on the appraisal value of the assets. As at December 31, 2005, there was no debt in this Division.

*Risk Factors*

The major risks include:

- Leasing risks (finding qualified tenants to lease the completed space);
- Construction risks (managing the cost and quality of developing the project); and
- Financing risks (ensuring the project has adequate financing resources).

Management attempts to mitigate these risks by:

- developing in the vicinity of major population and employment centres where the Company conducts business and owns similar assets;
- hiring professional consulting firms to aid in the planning and design of the project;
- using professional consultants and realtors to market the new projects;
- analyzing market conditions and evaluating potential customers;
- obtaining adequate pre-leasing levels prior to construction;
- acquiring the land after the project is approved (i.e. sites are not inventoried);
- contracting with reputable construction companies that use fixed/target price contracts;
- constantly monitoring leasing activity, construction progress and project costs; and
- communicating with financial institutions regarding interim and take-out financing.

## Investment Property Operations

The Investment Property Division has established itself as a key contributor to the continuing success of Melcor as one of Alberta's premier real estate development Companies. The majority of the Division's assets are managed by the Company.

Strategic initiatives for 2006 – 2008 include:

- To implement the Business Plan for the Division to meet objectives of increasing the return on investment;
- To acquire new investment properties (i.e. Class "B" office buildings in Edmonton) where significant increased value can be created within a 5-year timeframe;
- To seek out un-tapped revenue opportunities in existing assets;
- To enhance the quality of the portfolio's assets by upgrading their appearance, functionality and desirability thereby increasing their rental outputs;
- To focus on client retention through continual customer contact and ongoing service evaluation;
- To obtain and maintain financing to ensure reasonable leverage of its assets;
- To update and execute detailed leasing strategies for each asset; and
- To increase occupancy levels by 4% over the next 3 years.

### Operating Review

| ($000s) | **2005** | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Rental revenue | **15,749** | 12,088 | 10,235 | 7,651 | 6,218 |
| Operating expenses | **(7,607)** | (6,144) | (5,676) | (3,981) | (3,565) |
| Net operating income (NOI) [1] | **8,142** | 5,944 | 4,559 | 3,670 | 2,653 |
| Interest income | **22** | 11 | 17 | - | - |
| Interest expense | **(2,914)** | (2,234) | (2,083) | (1,219) | (1,017) |
| Depreciation | **(1,375)** | (1,148) | (715) | (549) | (475) |
| Amortization of tenant leasing costs | **(1,145)** | (884) | (713) | (721) | (269) |
| Administrative expenses | **(451)** | (322) | (338) | (201) | (178) |
| Earnings from operations | **2,279** | 1,367 | 727 | 980 | 714 |
| Gain (loss) on sale of assets | **-** | - | 1,559 | 991 | (504) |
| Divisional earnings | **2,279** | 1,367 | 2,286 | 1,971 | 210 |

1 See "Non-GAAP Financial Measures" section

The Investment Property Division experienced significant growth in 2005 in revenues, net operating income and earnings from operations. Overall, occupancy went up from 85% to 92%. This exceeded the Division's 2004 goal of increasing occupancy by 3% during 2005. While this increased occupancy and growth in operational performances is partly a result of acquisitions, the majority of the growth is a result of better performance from the existing portfolio.

A same building calculation, (see Calculations "f") comparing 2004 results to 2005 results, reveals a 12% increase in total revenues, a 30% increase in net operating income and an overall increase of 80% for net earnings. Due to increased financing, interest expense increased in 2005 by 23% versus 2004. This financing was instrumental in increasing the earnings as a % of net investment from 7.3% in 2004 to 12% in the current year.

## Selected Financial Benchmarks

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Asset book value | **80,186** | 56,408 | 50,820 | 43,853 | 36,790 |
| Financing | **(64,314)** | (34,354) | (35,573) | (29,280) | (15,539) |
| Net investment | **15,872** | 22,054 | 15,247 | 14,573 | 21,251 |
| EBITDA [1] | **6,546** | 4,738 | 3,508 | 2,748 | 2,206 |
| NOI as % of rental revenue [2] | **51.7%** | 49.2% | 44.5% | 48.0% | 42.7% |
| Earnings from operations as % of net investment [2] | **12.0%** | 7.3% | 4.9% | 5.5% | 4.3% |
| Divisional earnings as % of net investment [2] | **12.0%** | 7.3% | 15.3% | 11.0% | 1.3% |
| EBITDA as % of asset cost [2] | **9.5%** | 8.8% | 7.4% | 6.7% | 6.9% |
| % assets financed [2] | **80.2%** | 60.9% | 70.0% | 66.8% | 42.2% |

1 See "Non-GAAP Financial Measures" section

2 See "Calculations" in "Non-GAAP Financial Measures" section

Asset book value comprises commercial properties, manufactured home property, tenant leasing costs and major repairs which are recoverable from tenants. In 2005, the Division financed six properties for proceeds of $33,300,000. The Company used three lenders and achieved terms ranging from 5 to 15 years with a weighted average interest rate of 5.3%.

## *Property Holdings*

| Location/Name | Year Acquired | Rentable Square Feet Office | Retail | Total | % Leased 2005 | 2004 |
|---|---|---|---|---|---|---|
| **BUILDINGS** | | | | | | |
| *Edmonton, Alberta* | | | | | | |
| Melton Building | 1973 | 100,803 | 12,130 | 112,933 | 90 | 78 |
| Corinthia Plaza | 1975 | - | 23,143 | 23,143 | 93 | 93 |
| Westcor Building | 1978 | 58,024 | 12,811 | 70,835 | 98 | 95 |
| Princeton Place | 1999 | 50,137 | 8,448 | 58,585 | 81 | 69 |
| Capilano Centre (*) | 1999 | 68,906 | 29,550 | 98,456 | 93 | 76 |
| Trans Alta Place | 2000 | 44,064 | 3,032 | 47,096 | 84 | 81 |
| Birks Building | 2001 | 24,801 | 10,928 | 35,729 | 67 | 67 |
| Westgate Business Centre | 2001 | 74,753 | - | 74,753 | 100 | 100 |
| Glentel Building | 2002 | 15,968 | - | 15,968 | 100 | 100 |
| Associated Centre | 2002 | 53,951 | 18,820 | 72,771 | 91 | 85 |
| Leduc Common | 2003/2004/2005 | - | 82,390 | 82,390 | 97 | 81 |
| Sterling Business Centre | 2003 | 67,909 | - | 67,909 | 100 | 100 |
| Kingsway Business Centre | 2004 | 34,875 | - | 34,875 | 100 | 93 |
| Royal Bank Building | 2005 | 118,493 | 17,191 | 135,684 | 83 | - |
| *Calgary, Alberta* | | | | | | |
| Kensington Road Building | 1980 | 17,867 | 5,984 | 23,851 | 91 | 59 |
| Crowfoot Centre | 2002 | 44,924 | 23,699 | 68,623 | 99 | 99 |
| *Regina, Saskatchewan* | | | | | | |
| Albert Street Building | 1979 | 6,150 | - | 6,150 | 66 | 66 |
| University Park Plaza | 1981 | - | 41,206 | 41,206 | 94 | 93 |
| | | 781,625 | 289,332 | 1,070,957 | 92 | 85 |

| Location/Name | Year Acquired | Units | Site Size (Square Feet) | % Leased 2005 | % Leased 2004 |
|---|---|---|---|---|---|
| **Other Revenue Assets** | | | | | |
| *Edmonton, Alberta* | | | | | |
| 104 Street Parking Lot #1 | 2001 | 28 | n/a | 100 | 100 |
| 104 Street Parking Lot #2 | 2002 | 28 | n/a | 100 | 100 |
| Royal Bank Parkade | 2005 | 330 | n/a | 100 | n/a |
| Leduc Common (land leases) | 2003 / 2004 / 2005 | n/a | 336,000 | 100 | 100 |
| *Calgary, Alberta* | | | | | |
| Crowfoot Circle (land lease) | 1999 | n/a | 43,560 | 100 | 100 |
| 5th & 9th Street Parking Lot | 1980 / 2003 | 68 | n/a | 100 | 100 |
| **Manufactured Home Community** | | | | | |
| *Calgary, Alberta* | | | | | |
| Watergrove (*) | 1995 | 308 | n/a | 100 | 100 |

(* Joint Venture)

## *Property Transactions*

The Division had the following additions in 2005:

- The Division completed construction of a 10,800 square foot building on the Westgate Business Centre site. This building began generating lease revenue during the second quarter of 2005;
- At June 30, 2005 the Division acquired the Royal Bank Building in downtown Edmonton for $14,700,000. The acquisition included a 330 stall parkade and a vacant building lot which fronts Jasper Avenue;
- During the third quarter, the Division acquired a 6.7 acre site from the Community Development Division which has been leased to Rona Inc. who constructed a 54,000 square foot retail building on the site. Rents, for this site, will begin in the second quarter of 2006;
- During the fourth quarter, the Division acquired the remaining developed property from the Property Development Division known as Leduc Common which included just over 54,000 square feet of leased space; and
- During the year, the Division's rentable space surpassed one million square feet which is the largest portfolio of rentable square feet in the Company's history.

## *Financing*

The Division normally finances its assets with fixed rate long-term mortgage financing. The advantages of this strategy include:

- Reduction of interest rate risk as mortgages are financed over fixed terms of five to fifteen years;
- Returns are increased due to leverage; and
- Cash flow from financing helps to fund asset acquisitions thus allowing the Division to expand its asset base without using cash from other Divisions.

Those assets where performance is below optimum levels needed to obtain market rates or desired leverage, are either left unencumbered or financed with short term, floating rates until such time as performance improves and satisfactory financing is attainable.

See the "Financial Instruments" section of this MD&A for further information.

## *Risk Factors*

The two major risks affecting the Division are retaining existing tenants and attracting new tenants. The Division is subject to the market conditions in the geographic areas where it owns properties. As these market conditions change, the ability to achieve higher occupancy rates also changes. Market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates.

Management attempts to mitigate these risks by:

- owning properties in the vicinity of major population and employment centres, (normally in areas where we also develop land for resale);
- diversifying the type of investment properties in the portfolio;
- managing and participating in joint ventures;
- purchasing properties that are below replacement value, which improves prospects for future appreciation in lease rates and property values;
- obtaining long-term, fixed-rate financing when the features of the specific property meet conditions that generate competitive financing terms;
- managing our buildings so as to have competitive operating costs; and
- maintaining adequate insurance coverage to protect the Division's income stream, assets and exposure to third party claims.

## Recreational Property Operations

This Division owns and manages two 18-hole championship golf courses being The Links at Spruce Grove and Lewis Estates Golf Course (60% joint venture) and owns a golf course under construction in Kelowna, British Columbia in the Black Mountain region.

Strategic initiatives for 2006 – 2008 include:

- To enhance Divisional performance through revenue enhancements and potential acquisitions of golf course properties; and
- To continue performing due diligence on the development of a golf course in the Calgary region.

### Operating Review

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenue | **3,228** | 2,756 | 2,951 | 2,908 | 2,701 |
| Operating costs | **(1,466)** | (1,434) | (1,416) | (1,414) | (1,293) |
| Net operating income (NOI) [1] | **1,762** | 1,322 | 1,535 | 1,494 | 1,408 |
| Interest expense | **(178)** | (88) | (108) | (52) | (65) |
| Administrative expenses | **(631)** | (525) | (553) | (529) | (518) |
| Depreciation expense | **(244)** | (241) | (267) | (249) | (263) |
| Gain/(Loss) on sale of capital assets | **(63)** | - | 19 | 12 | 31 |
| Divisional earnings | **646** | 468 | 626 | 676 | 593 |

1 See "Non-GAAP Financial Measures" section

### Selected Financial Benchmarks

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Asset cost | **9,231** | 5,892 | 5,647 | 5,432 | 5,343 |
| Accumulated depreciation | **(3,168)** | (3,047) | (2,806) | (2,644) | (2,416) |
| | **6,063** | 2,845 | 2,841 | 2,788 | 2,927 |
| Less debt related to golf courses | **(5,117)** | (1,602) | (1,762) | (1,890) | (1,060) |
| Net investment | **946** | 1,243 | 1,079 | 898 | 1,867 |
| EBITDA [1] | **1,131** | 797 | 982 | 965 | 890 |
| NOI as % of revenue [2] | **54.6%** | 48.0% | 52.0% | 51.4% | 52.1% |
| Divisional earnings as % of net investment [2] | **59.0%** | 40.3% | 63.3% | 48.9% | 30.7% |
| EBITDA as % of asset cost [2] | **15.0%** | 13.8% | 17.7% | 17.9% | 17.1% |
| % assets financed [2] | **84.4%** | 56.3% | 62.0% | 67.8% | 36.2% |

1 See "Non-GAAP Financial Measures" section

2 See "Calculations" in "Non-GAAP Financial Measures" section

Revenue and earnings in 2005 were up due to an average golf season in terms of weather and the number of rounds played compared to 2004 when the golf season had a late start and lost an extraordinary number of playing days due to poor weather. Excluding the prior year, revenue and EBITDA[1] had increased each year due to greens fee increases, satisfactory number of rounds being played and excellent cost control. Weather permitting, the Company expects to show moderate growth to revenue and earnings for 2006.

### *Operational Activity*

The courses are maintained consistent with the adopted objectives of a recognized championship public golf course. This sustains a positive economic balance between the level of the course fees, the number of rounds attracted and the level of enjoyment experienced by our customers as it relates to course conditions. Both courses have a reputation of consistently being in excellent condition overall.

### *Equipment/Assets*

The Division purchases and maintains recognized brand name grounds-keeping equipment, which allow grounds crews to perform a superior job. Golf carts are replaced every 6 to 8 years.

In 2005, the Company began construction of a club house at Lewis Estates replacing the temporary club house which has served the golf course for 10 years. The old club house was sold, which generated a loss of $66,000 (net of joint venture interest). The new club house will be completed early in the 2006 golf season.

In 2005, the Company acquired a golf course/residential community that had commenced development in Kelowna, British Columbia. To date 9 holes have been built and it is expected that construction of the second 9 holes will commence in early 2006. The Company has invested $3,149,000 in construction costs including land.

### *Financing*

The Division's financing goals are similar to those of the Investment Property Division (i.e. to obtain long-term fixed rate financing).

Currently, the Lewis Estates Golf Course is financed with a variable rate mortgage and is part of a comprehensive financing arrangement which also includes a term loan respecting future development lands. The Links at Spruce Grove was financed in 2005 generating mortgage proceeds of $3,750,000 and has a fixed rate of interest for 5 years at 5.12%.

### *Risk Factors*

The primary risk factor is to continue to attract golfers to play at the Division's golf courses. Golf course results are subject to weather, number of playing days, competition from other courses, the amount of disposable income available to customers to spend on recreational activity, popularity of the sport and the cost of providing desirable playing conditions.

Management attempts to mitigate these risks by:

- owning golf courses near high population areas;
- keeping green fees competitive, but sufficient to maintain a high standard of course conditions;
- servicing the corporate golf tournament business, which increases the number of sold out days and provides revenue on marginal weather days;
- building good practice facilities at the courses and by providing excellent professional golf instruction; and
- practicing efficient, courteous and professional customer relations to encourage patrons to return.

## Liquidity

Management believes that with the projected level of operations for 2006, our capital commitments and the availability of funds under the established credit facility, the Company will have sufficient capital to fund its operations and continue investing in land inventory and revenue producing assets.

The Company is relatively conservative as it relates to its use of debt to finance its operations. This is evidenced by the debt to equity ratio (total debt divided by total equity as per the balance sheet) over the past 5 years which is as follows:

| **2005** | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| **1.13 to 1** | .84 to 1 | .79 to 1 | .83 to 1 | .66 to 1 |

The Company has an ongoing requirement to finance its operations. The Company has a credit facility with a major chartered bank. Under the terms of this facility, the Company pledges specific agreements receivable, specific lot inventory and a general security agreement as collateral. This credit facility may be terminated by the bank upon one year's notice and may be modified to meet the Company's needs. A summary of the credit facility is as follows:

| **($000s)** | **2005** | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| Supportable credit limit | **76,700** | 43,500 | 51,000 | 53,000 |
| Credit limit approved | **43,250** | 29,650 | 31,000 | 26,950 |
| Credit used | **16,026** | 10,167 | 1,642 | 839 |

In addition to the credit facility above, the Company can raise equity, capital and debt financing as discussed in the "Capital Resources" section of this MD&A.

## Cash Flows

The Company received cash of $21,642,000 from operating activities which is a decrease of $2,689,000 over the amount received in 2004. The primary use of funds was an increase of $41,827,000 in agreements receivable and $1,968,000 in development activities. Earnings of $41,776,000, non-cash items which were expensed in earnings of $8,243,000 and from the net change of other operating assets and liabilities of $15,418,000 (which was primarily from the increase in the accounts payable balance at the year end) were the main source of funds from operating activities.

The Company used $46,455,000 in cash from investing activities which is an increase of $30,111,000 over the amount used in 2004. The primary use of cash was the purchase of investment properties of $29,663,000 (an increase of $23,740,000 over the 2004 purchases) and the purchase of land inventory of $16,739,000 (an increase of $6,385,000 over 2004 purchases).

The Company received $27,683,000 from financing activities which is an increase of $34,599,000 over 2004 when the Company used $6,916,000 in financing activities. The primary source of funds was mortgage financing of $47,358,000 in 2005 (2004 – nil). The Company also raised $2,162,000 from the issuance of share capital resulting from the exercising of employee stock options. The Company made debt repayments of $16,750,000 which is an increase of $7,401,000 over the debt repayments made in 2004 which amounted to $9,349,000. The Company also paid $7,660,000 in dividends (2004 – $3,690,000) which is an increase of $3,970,000 over the amount paid in 2004.

Contractual obligations include:

| ($000s) | Payments Due by Period Total | Less than 1 Year | 1 - 3 Years | 4 - 5 Years | After 5 Years |
|---|---|---|---|---|---|
| Long term debt | 119,910 | 14,060 | 32,776 | 12,356 | 60,718 |
| Operating leases | 48 | 24 | 24 | - | - |
| Purchase obligations | 1,975 | 1,975 | - | - | - |
| Total contractual obligations | 121,933 | 16,059 | 32,800 | 12,356 | 60,718 |

## Capital Resources

### Equity

The Company has issued stock options to its employees. As these options become vested, they can be exercised by the employee, thus raising share capital for the Company. If all outstanding options are exercised at their earliest date, the Company stands to raise $4,691,000 in share capital by 2012. See the "Outstanding Share Data" section in this MD&A for further information.

The Company has an outstanding normal course issuer bid which allows the Company to purchase up to 152,139 common shares during a one year period ending on September 15, 2006. In 2005, the Company purchased 62,000 common shares under the bid for $3,286,000. In 2004, the Company purchased 62,000 common shares for $3,062,280. If the Company purchases shares under the current bid, capital resources will be used depending on the price and quantity of shares purchased.

### Debt

The Company could raise additional financing from the following sources:

- Credit facility (see the "Liquidity" section of this MD&A for further information);
- Refinance existing investment property assets for greater mortgage proceeds (see the "Financial Instruments" section of this MD&A for further information);
- Place interim or take-out financing for properties under development within the Property Development Division; and
- Place new financing on unencumbered assets.

## Off Balance Sheet Arrangements

### Letters of Credit

The Company has an ongoing requirement to provide letters of credit to municipalities as part of the subdivision plan registration process. These securities would provide a source of funds to the municipalities that would allow them to complete the construction of the subdivision should the Company not be able to. The amount of any particular letter of credit is reduced at various stages of construction. Once the municipality issues a certificate acknowledging completion of the project, the letter of credit is cancelled.

The Company records the estimated cost of completion, for all single family lots and parcels (i.e. multifamily, commercial and industrial sites) sold as a liability in "Provision for land development costs" in the balance sheet. The amount of individual letters of credit will normally exceed the related liability recorded in the accounts due to the timing of the ongoing expenditures which are incurred as the project is being developed compared to the timing of reductions in the balance of the corresponding letter of credit.

The Company's letter of credit facility is part of the Company's overall credit facility that was negotiated with a major Canadian chartered bank. The Company's letter of credit balances over the past three years, net of joint venture interests are:

| ($000s) | **2005** | 2004 | 2003 |
|---|---|---|---|
| Total facility | **29,031** | 25,256 | 24,675 |
| Amount outstanding | **(22,939)** | (15,886) | (17,800) |
| Available for issue | **6,092** | 9,370 | 6,875 |

### Joint Venture Guarantees

The Company has a history of conducting a significant portion of its business through joint ventures as a way of diversifying development and investment risk. Currently, Melcor is a participant and manager in 13 joint ventures. As manager, the Company has arranged appropriate credit facilities for all active joint ventures which margin pre-development work, agreements receivable and lot inventory to provide a line of credit facility to accommodate development activities. In some cases, the Company's guarantee for these facilities goes beyond the Company's proportionate share of the liability.

The following table illustrates guarantees made by the Company related to joint venture agreements:

| ($000s) | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net loan guarantees | **11,264** | 10,563 | 9,025 |
| Letter of credit guarantees | **5,300** | 3,580 | 2,622 |
| Amounts secured by joint venture agreements | **16,564** | 14,143 | 11,647 |

To mitigate the possibility of financial loss, Melcor is diligent in its selection of joint venture participants. As well, Melcor has remedies available within the Joint Venture Agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint venture participants.

## Joint Venture Activity

The Company uses the proportionate consolidation method to account for its joint ventures. The following table illustrates selected financial data related to joint ventures at 100% as well as the net portion relevant to Melcor.

### Joint Venture Activity at 100%

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenue | **78,863** | 63,857 | 45,068 | 47,852 | 32,151 |
| Earnings | **24,640** | 21,588 | 16,171 | 14,149 | 9,709 |
| Assets | **202,569** | 161,254 | 109,310 | 94,677 | 67,232 |
| Liabilities | **108,508** | 84,659 | 49,724 | 48,977 | 34,158 |

### Melcor's Portion (33.3% - 75.0%)

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenue | **45,666** | 34,117 | 26,782 | 25,947 | 15,507 |
| Earnings | **14,266** | 11,133 | 8,947 | 7,325 | 4,397 |
| Assets | **108,036** | 85,600 | 57,862 | 50,034 | 33,467 |
| Liabilities | **57,849** | 44,968 | 26,130 | 28,785 | 17,522 |

The activities of the thirteen joint ventures are as follows:

- (1) Commercial Property;
- (1) Manufactured Home Community;
- (1) Active land development and golf course operations;
- (1) Active land development with commercial property development activities;
- (7) Active land development activities; and
- (2) Non-active land development with activities expected to commence in 2-4 years.

## Critical Accounting Estimates

The Company's most significant estimates relate to measuring cost of sales in the Community Development Division which sells parcels of land prior to all costs being committed or known. These estimates are necessary to facilitate the reporting of earnings. The nature of the land development industry includes lengthy time frames to complete all municipal requirements.

When the Community Development Division obtains plan registration for a new phase of a subdivision, the estimated total cost to build the phase is determined and once a lot sale is recorded, the estimated unexpended portion of that cost is set up as a liability in the "Provision for land development costs."

The Division uses independent consultants to help in the preparation of construction budgets, which tend to be conservative in nature. When actual development costs related to the subdivision are incurred, they are applied against the provision.

At least once per year, actual costs are reviewed against the budget and revisions are made when the estimated unexpended portion of the provision is known to be materially different from the revised estimate to complete the project.

The most significant factors causing revisions to estimates are as follows:

- Increases/decreases to contract amounts from when they are estimated to when they are actually awarded;
- Changes in costs that are contracted by the unit and the number of units vary from the estimate (i.e. volume of earth required to be moved); and
- Other changes typical in a construction environment where future events and uncertainty cannot be reasonably predicted, such as contingencies and allowances for those items which can only be estimated within a range of values and are known only after project completion.

The market conditions of the past four years have been somewhat more volatile than they had been in years prior. Suppliers of development inputs are working at capacity. This has increased the risk of making estimation errors.

## Changes In Accounting Policies Including Initial Adoption

Effective January 1, 2004, the Company discontinued its use of the 5% sinking fund method which was used for all non-golf course investment properties, and adopted the straight line method. Effective with this adoption, the Company reviewed the useful lives of its investment properties and determined that its investment property buildings have a useful life of 40 to 60 years. This change in estimate was accounted for prospectively. The combined effect, was an increase in amortization expense and a decrease in earnings of $255,000 in 2004 and by a decreasing amount in subsequent years.

A new standard is in effect for fiscal years beginning on or after January 1, 2004, for recognizing, measuring and disclosing liabilities for asset retirement obligations and the associated asset retirement costs. The Company adopted this policy on January 1, 2004. Adoption of this standard did not result in the recognition of an asset retirement obligation.

A new standard is in effect for recognizing, measuring and disclosing impairment of long-lived assets held for use. The standard requires that an impairment loss be recognized in an amount equal to the difference between carrying value and fair value when the carrying value of a long-lived asset exceeds the undiscounted future cash flows. The Company has adopted the standard for the fiscal year commencing January 1, 2004. After having completed a review of its assets, it has concluded that there is no impairment of long-lived assets.

In June 2003, the CICA issued a new accounting guideline ("AcG15") which requires the consolidation of Variable Interest Entities ("VIEs") by the primary beneficiary. Revisions to this guideline were published by the CICA in August 2004 to harmonize with the VIE accounting standard that is in place in the United States. A VIE is an entity where:

a) Its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met; and

b) It does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIEs expected losses, expected residual returns, or both. This guideline is effective for the Company commencing January 1, 2005 and was adopted retroactively.

The Company is involved in numerous joint ventures and has determined that these joint ventures do not meet the definition of VIEs. The Company has determined that it has no other business relationships that meet the definition of a VIE.

## Disclosure Controls and Procedures

In conformance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Company has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer that, among other things, deal with the matter of disclosure controls and procedures.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures and have concluded that the disclosure controls and procedures at Melcor provide management a reasonable level of assurance, in all material respects, that information required to be disclosed by Melcor on a continuous basis and in annual and interim filings or other reports is recorded, processed, summarized, and reported or disclosed on a timely basis as required.

## Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, income taxes receivable, agreements receivable, bank operating loan, accounts payable and accrued liabilities, debt on land inventory and debt on investment properties. The Company believes that the fair value of financial instruments approximates their carrying values. The fair value of cash and cash equivalents, accounts receivable, income taxes receivable, bank operating loan, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

The fair value of agreements receivable are estimated based on the interest bearing nature of these instruments which are at rates consistent with market rates for debt instruments with similar terms to maturity. The fair value of debt on land inventory and debt on investment properties are estimated based on quoted market rates for similar instruments with similar terms.

Agreements receivable are a financing tool used by the Company to assist builders to acquire lots. Normal terms include repayment within one year, interest at prime plus one percent after any provision for an interest relief period and an above market interest rate for balances that are past due. The Company retains full security until the agreement receivable has been collected. The Company seldom incurs bad debt losses in relation to agreements receivable.

Debt on land inventory is normally comprised of loans from the acquisition of land that are primarily held by the land vendor (fixed rate financing with repayments over 3 to 10 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). In addition, the Company may obtain financing from a financial institution in order to commence major infrastructure in a new community or obtain project financing when the borrowing requirement falls outside the normal parameters that are currently met with a line of credit. This type of loan usually has floating rates of interest tied to prime. The following carry forward table illustrates the changes in debt on land inventory over the past five years:

### Debt on Land Inventory

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Balance at beginning of the year | **40,311** | 35,885 | 29,141 | 12,776 | 10,545 |
| New loans | **24,575** | 12,396 | 13,596 | 22,644 | 5,783 |
| Repayments | **(14,408)** | (7,970) | (6,852) | (6,279) | (3,552) |
| Balance at end of the year | **50,478** | 40,311 | 35,885 | 29,141 | 12,776 |
| Weighted average interest rate | **4.9%** | 4.8% | 5.1% | 5.8% | 5.9% |

Debt on investment properties includes loans which are normally fixed rate and long-term in nature. Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. Loan maturity dates are spread out so as to reduce associated loan renewal risks. The following table represents cumulative loan amounts due for renewal over the next eight years for fixed rate mortgages including the golf courses:

| Year | $ Loan Renewal Amount | Weighted Average Current Interest Rate | Number of Loans |
|---|---|---|---|
| 2006 | 8,938,000 | 6.4% | 5 |
| 2007 | - | - | - |
| 2008 | 6,605,000 | 5.8% | 4 |
| 2009 | - | - | - |
| 2010 | 15,947,000 | 5.1% | 5 |
| 2011 | - | - | - |
| 2012 | 10,423,000 | 7.0% | 3 |
| 2015 | 3,123,000 | 5.9% | 1 |
| 2020 | 8,489,000 | 5.3% | 2 |

Debt on investment properties in the amount of $69,432,000 reflects financing placed on investment properties, which have a net book value of $69,829,000. The following carry forward table illustrates the changes in debt on investment properties over the past five years:

### Debt on Investment Properties

| ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Balance at beginning of the year | **35,956** | 37,335 | 31,170 | 16,599 | 12,181 |
| New mortgage financing (net) | **35,818** | - | 9,100 | 15,870 | 5,415 |
| Loans assumed | - | - | 1,917 | 1,971 | - |
| Repayments | **(2,342)** | (1,379) | (4,852) | (3,270) | (997) |
| Balance at end of the year | **69,432** | 35,956 | 37,335 | 31,170 | 16,599 |

## Outstanding Share Data

The Company has only one class of Common Shares authorized. Their issuance is as follows:

| Outstanding Shares (#) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Outstanding shares at beginning of year | **3,054,503** | 3,082,803 | 3,052,113 | 3,045,723 | 3,038,903 |
| Stock option exercised | **83,059** | 33,700 | 30,690 | 13,190 | 7,220 |
| Shares purchased and cancelled | **(62,000)** | (62,000) | - | (6,800) | (400) |
| Outstanding shares at end of year | **3,075,562** | 3,054,503 | 3,082,803 | 3,052,113 | 3,045,723 |

| Outstanding Stock Options (#) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Outstanding options at beginning of year | **182,160** | 215,700 | 239,690 | 162,380 | 156,500 |
| Stock Options granted | **23,200** | 1,200 | 9,300 | 97,100 | 15,500 |
| Stock Options exercised | **(83,059)** | (33,700) | (30,690) | (13,190) | (7,220) |
| Stock Options forfeited | **(640)** | (1,040) | (2,600) | (6,600) | (2,400) |
| Outstanding options at end of year | **121,661** | 182,160 | 215,700 | 239,690 | 162,380 |

In the future, the maximum stock options which could be exercised based on existing employee stock option programs, are in the table below. This could change if new stock options are granted or if existing stock options expire or are forfeited. Also, it could change if employees defer the exercise of their stock options to periods subsequent to their vesting period.

| Exercisable Stock Options | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Maximum options exercisable in the future (#) | 80,081 | 25,320 | 6,740 | 4,880 | 4,640 |
| Maximum increase in share capital ($) | 2,538,000 | 1,074,000 | 412,000 | 339,000 | 328,000 |

## Fourth Quarter Results

The results from the fourth quarter in 2005 were the second best quarterly net earnings in the history of the Company only surpassed by the third quarter of 2005 which recorded a material land sale. The increase in earnings was primarily due to increased land sales in the Community Development Division in all regions. During the fourth quarter, there were 13 plan registrations compared to 12 during the same period in the prior year.

The history of the past (4) fourth quarter results are as follows:

| | For the three months ended December 31st | | | |
|---|---|---|---|---|
| ($000s) | **2005** | 2004 | 2003 | 2002 |
| Revenue | **69,506** | 35,891 | 19,592 | 38,279 |
| Cost of sales | **(42,664)** | (19,947) | (8,991) | (21,143) |
| | **26,842** | 15,944 | 10,601 | 17,136 |
| Interest revenue | **575** | 415 | 533 | 561 |
| Interest expense | **(1,190)** | (603) | (640) | (505) |
| General and administrative expenses | **(2,043)** | (1,338) | (1,785) | (3,088) |
| Amortization expense | **(434)** | (376) | (234) | (203) |
| Gain/(loss) on sale of capital assets | **(63)** | - | 1 | 992 |
| Earnings before income tax expense | **23,687** | 14,042 | 8,476 | 14,893 |
| Income tax expense | **(8,301)** | (4,333) | (2,431) | (5,545) |
| Net earnings for the period | **15,386** | 9,709 | 6,045 | 9,348 |
| Basic earnings per common share | **5.07** | 3.16 | 1.97 | 3.07 |
| Diluted earnings per common share | **4.95** | 3.06 | 1.90 | 2.98 |

Segmented information for the fourth quarter is as follows:

| | For the three months ended December 31, 2005 | | | For the three months ended December 31, 2004 | | |
|---|---|---|---|---|---|---|
| Revenue ($000s) | **Segment Revenue** | **Inter-segment Eliminations** | **External Revenue** | Segment Revenue | Inter-segment Eliminations | External Revenue |
| Community development | **64,715** | **44** | **64,759** | 33,234 | (704) | 32,530 |
| Property development | **9,291** | **(9,200)** | **91** | 4,058 | (4,058) | - |
| Investment property | **4,580** | **(139)** | **4,441** | 3,271 | (52) | 3,219 |
| Recreation property | **269** | **(54)** | **215** | 199 | (57) | 142 |
| | **78,855** | **(9,349)** | **69,506** | 40,762 | (4,871) | 35,891 |
| Earnings ($000s) | **Segment Revenue** | **Inter-segment Eliminations** | **External Revenue** | Segment Revenue | Inter-segment Eliminations | External Revenue |
| Community development | **24,515** | **(36)** | **24,479** | 14,827 | 101 | 14,928 |
| Property development | **2,276** | **(2,250)** | **26** | 373 | (475) | (102) |
| Investment property | **435** | **-** | **435** | 385 | (32) | 353 |
| Recreation property | **(270)** | **-** | **(270)** | (164) | (45) | (209) |
| | **26,956** | **(2,286)** | **24,670** | 15,421 | (451) | 14,970 |
| **Non-allocated items:** | | | | | | |
| Interest income | | | **105** | | | - |
| Interest expense | | | **(14)** | | | (26) |
| General and administrative expenses | | | **(1,074)** | | | (902) |
| Earnings before income tax expense | | | **23,687** | | | 14,042 |
| Income tax expense | | | **(8,301)** | | | (4,333) |
| Net earnings for the period | | | **15,386** | | | 9,709 |

## Non-GAAP Financial Measures

Melcor uses several non-GAAP measures in evaluating and measuring certain performance results. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

Non-GAAP measures include:

- Net Operating Income (NOI) – this measures revenue less direct operating expenses.
- Earnings before interest, taxes (income), depreciation and amortization (EBITDA) – this measure is often used in the real estate industry because it isolates earnings before income taxes (at Melcor's Divisional level, income taxes are not applicable), interest expense, depreciation and amortization to measure operating performance. Interest expense can distort the comparable performance of a property as it depends on the amount of financing carried by the property and the interest rate charged on the loan. Depreciation expense can vary depending on depreciation policies, age of the property and depreciable value of the property. Melcor includes amortization of tenant leasing costs as an expense in arriving at EBITDA.

### *Calculations*

The Company uses the following calculations in measuring the performance of its Divisions:

a) NOI as % of rental revenue = net operating income / revenue

b) Earnings from operations as % of net investment = Division earnings / average net investment, i.e. [(opening net investment + closing net investment) / 2]

c) Divisional earnings as % of net investment = Division earnings / average net investment, i.e. [(opening net investment + closing net investment) / 2]

d) EBITDA as % of asset cost = EBITDA / average asset cost, i.e. [(opening asset cost + closing asset cost) / 2]

e) % of assets financed = debt / assets

f) Same building calculation = this compares the results of a building owned if it is owned for the entire current and prior years.

## Assumptions For 2006 – 2008

- Alberta's economy will continue to experience strong growth leading to high levels of employment and job growth.
- Canada's economy will remain stable with low inflation, low interest rates, a higher dollar (i.e. $.85 – $.90 range in comparison to $1 US) and moderate business and consumer confidence. Mortgage rate increases will be moderate.
- World demand for Alberta commodities will remain strong, especially demand for oil sands products and natural gas.
- Canada's major trading partners will experience stable economies and continue to import Canadian products. U.S. trade will be pressured due to a growing U.S. trade deficit and security concerns in the U.S.
- The real estate market, especially demand for residential housing will remain strong in Alberta due to affordability, job creation, moderate in migration, confidence and the second generation of the Baby Boom.
- Anti-growth sentiments and financial challenges by municipalities will negatively impact the development industry.
- Increasing real estate inventories and moderating demand will continue to create highly competitive markets while rising input costs will put pressure on margins.
- Melcor will continue to operate in the same business and geographic areas and with the same structure.

## Performance Chart - Five Year Cumulative Total Return on $100 Investment (December 31, 2000 - December 31, 2005)


The following chart illustrates Melcor's five-year cumulative total shareholder return, assuming an initial investment of $100 with all dividends reinvested versus the return on the S&P/TSX 300 Composite Index and the TSX Capped Real Estate Index. Over the past 5 years, the investment in Melcor has grown to $1,305 compared to the TSX 300 Composite Index growth of $113 and the TSX Capped Real Estate Index growth of $204.

# Corporate Governance Practices

The Board of Directors (the "Board") is responsible for the stewardship of the Company. In executing this role, the Board shall oversee the conduct, direction and results of the business. In turn, management is mandated to conduct the day-to-day business and affairs of the Company and is responsible for implementing the Board's strategies, goals and directions. The Board and its members shall at all times act in the best interests of the Company and its actions shall reflect its responsibility of establishing proper business practices and high ethical standards expected of the Company. The Board has approved a Business Code of Conduct for the Company that is applicable to all Directors, Officers and Employees of the Company. The Board has adopted Corporate Governance Guidelines which, amongst other matters, sets out the Board's principal responsibilities. In discharging the Board's stewardship obligations, the following are specific principal responsibilities of the Board:

- To ensure that the Company adopts a strategic planning process;
- To review and monitor the Company's principal business risks, as identified by management, and the system to manage such risks;
- To appoint, develop and monitor senior management and ensure that management provides for succession planning;
- To ensure that the Company has a policy in place to enable it to communicate effectively with shareholders, other stakeholders and the public generally;
- To ensure there are control and information systems in place for the effective discharge of the Board's responsibilities;
- To ensure appropriate corporate governance at all times;
- To know and understand the business of the Company to the best if its ability; and
- To satisfy itself that the Company continually performs with business conduct of the highest quality.

A majority of the board of directors is independent. The Audit Committee and the Governance Committee consist solely of independent directors. As required, the Board will meet in Executive Session at which only the independent directors are in attendance. As the Executive Chairman is not considered to be independent, the Board has appointed a Lead Director with written terms of reference for such position.

## *Governance Committee*

The Board believes in the importance of maintaining sound corporate governance practices, and has therefore established the Governance Committee to periodically review, evaluate and modify governance processes as necessary. This Committee makes recommendations to the Board, in accordance with their approved terms of reference. The Committee is responsible for ensuring that an appropriate corporate governance system is in place for the Board's overall stewardship responsibility and the discharge of its obligations to the stakeholders of the Company. The Committee is also responsible for proposing new nominees to the Board and for assessing the overall performance of the Board and the committees of the Board. With respect to compensation matters, the Committee is responsible for reviewing compensation levels of senior management, evaluating the performance of management and considering management succession and related matters. The committee receives data on salary levels from the Company and from independent surveys. The executive compensation program is comprised of a base salary, annual incentive compensation and a stock option program.

The Governance Committee is comprised of four independent directors. The current members of the Governance Committee are Lou D. Hyndman (Chairman), William D. Grace, Bruce Saville and Ross A. Grieve.

## *Audit Committee*

The Audit Committee is appointed by, and responsible to the Board. This Committee approves, monitors, evaluates, advises and makes recommendations, in accordance with approved terms of reference, on matters affecting the external and internal audits, risk management matters, the integrity of financial reporting and the accounting control policies and practices of the Company. The involvement of the Committee in overseeing the financial reporting process, including assessing the reasonableness of management's accounting judgments and estimates and reviewing key filings with regulatory agencies, is an important element of the company's internal control over financial reporting. The Committee has oversight responsibility for the performance of both the internal auditors (if any) and the external auditors. The Committee also ensures the qualifications and independence of the external auditors. The Committee has oversight of the Company's compliance with legal and regulatory requirements. It is not the duty of the Committee to plan or conduct audits, or to determine that the Company's financial statements are complete, accurate, and in accordance with generally accepted accounting principles.

The current members of the Audit Committee are William D. Grace (Chairman), Lou D. Hyndman, W. Garry Holmes and Ross A. Grieve. Each member is considered by the Board of Directors to be independent and financially literate within the meaning of Multilateral Instrument 52-110 – Audit Committees.

The Committee assesses the performance and considers the annual appointment of external auditors for recommendation to the Board for ultimate recommendation for appointment by the shareholders, including a review of the auditor's performance, qualifications, independence, audit plans and fees. All non-audit services provided by the external auditors or its affiliates are pre-approved by the committee which also considers any potential impact the non-audit service may have on the independence of the external audit work. The committee also receives annual reports from the external auditor on their views of the quality (not just the acceptability) of the Company's annual and interim financial reporting.

The Auditors, Audit Committee and management maintain regular and open communication in relation to the audit of the Company's financial statements. The Auditors review and discuss the Company's unaudited quarterly financial statements and earnings releases with management and the Audit Committee.

# Consolidated Statement of Earnings and Retained Earnings

| For the years ended December 31 ($000s) | 2005 | 2004 |
|---|---|---|
| Revenue | **161,500** | 88,339 |
| Cost of sales | **(86,343)** | (52,107) |
| | **75,157** | 36,232 |
| Interest income | **1,887** | 1,586 |
| Interest expense (Note 16) | **(3,896)** | (2,463) |
| General and administrative expenses | **(9,442)** | (5,546) |
| Amortization expense | **(1,682)** | (1,486) |
| Loss on sale of investment properties | **(63)** | - |
| Earnings before income taxes | **61,961** | 28,323 |
| Income tax expense (Note 11) | | |
| Current | **(13,764)** | (8,774) |
| Future | **(6,421)** | (112) |
| | **(20,185)** | (8,886) |
| Net earnings for the year | **41,776** | 19,437 |
| Retained earnings, beginning of the year | **146,055** | 133,211 |
| Dividends | **(7,660)** | (3,690) |
| Cost of common shares purchased in excess of stated capital | **(3,123)** | (2,903) |
| Retained earnings, end of the year | **177,048** | 146,055 |
| Basic earnings per share (Note 14) | **13.80** | 6.30 |
| Diluted earnings per share (Note 14) | **13.50** | 6.15 |

# Consolidated Balance Sheet

| As at December 31 ($000s) | 2005 | 2004 |
| --- | --- | --- |
| **Assets** | | |
| Cash and cash equivalents | **9,021** | 6,151 |
| Accounts receivable | **4,570** | 2,908 |
| Income taxes receivable | **-** | 3,118 |
| Agreements receivable (Note 3) | **85,335** | 43,508 |
| Land inventory (Note 4) | **201,398** | 163,694 |
| Investment properties (Note 5) | **86,685** | 54,930 |
| Capital assets (Note 6) | **327** | 291 |
| Deferred costs and other assets (Note 7) | **8,777** | 7,748 |
| | **396,113** | 282,348 |
| **Liabilities** | | |
| Bank operating loan (Note 8) | **16,026** | 10,167 |
| Accounts payable and accrued liabilities | **21,125** | 12,107 |
| Income taxes payable | **5,973** | - |
| Provision for land development costs | **29,026** | 18,962 |
| Debt on land inventory (Note 9) | **50,478** | 40,311 |
| Debt on investment properties (Note 10) | **69,432** | 35,956 |
| Future income taxes (Note 11) | **17,725** | 11,304 |
| | **209,785** | 128,807 |
| **Shareholders' Equity** | | |
| Share capital (Note 12) | **10,023** | 8,024 |
| Contributed surplus (Note 12 (f)) | **88** | 10 |
| Retained earnings | **177,048** | 146,055 |
| Currency translation adjustment (Note 13) | **(831)** | (548) |
| | **186,328** | 153,541 |
| | **396,113** | 282,348 |

**Signed on Behalf of the Board**

Per: _______________ Director

Per: Ralph Y-e _______________ Director

# Consolidated Statement of Cash Flows

| For the years ended December 31 ($000s) | 2005 | 2004 |
|---|---|---|
| **Cash flows from (used in) operating activities** | | |
| Net earnings for the year | **41,776** | 19,437 |
| Non cash items: | | |
| Amortization of investment properties | **1,614** | 1,389 |
| Amortization of capital assets | **67** | 97 |
| Stock-based compensation expense (Note 12 (f)) | **78** | 9 |
| Loss on sale of investment properties | **63** | - |
| Future income taxes | **6,421** | 112 |
| | **50,019** | 21,044 |
| Agreements receivable | **(41,827)** | 3,396 |
| Development activities (Note 21) | **(1,968)** | 3,400 |
| Operating assets and liabilities (Note 21) | **15,418** | (3,509) |
| | **21,642** | 24,331 |
| **Cash flows from (used in) investing activities** | | |
| Purchase of land inventory (Note 4) | **(16,739)** | (10,354) |
| Proceeds from sale of investment properties | **50** | - |
| Proceeds from sale of capital assets | **1** | - |
| Investment property additions | **(29,663)** | (5,923) |
| Capital asset additions | **(104)** | (67) |
| | **(46,455)** | (16,344) |
| **Cash flows from (used in) financing activities** | | |
| Bank operating loan | **5,859** | 8,525 |
| Bank loans on land purchased | **11,540** | - |
| Repayment of debt on land inventory (Note 9) | **(14,408)** | (7,970) |
| Proceeds from investment property financing | **35,818** | - |
| Repayment of debt on investment properties | **(2,342)** | (1,379) |
| Dividends | **(7,660)** | (3,690) |
| Share capital issued (Note 12 (a)) | **2,162** | 661 |
| Common shares purchased (Note 12 (a)) | **(3,286)** | (3,063) |
| | **27,683** | (6,916) |
| Increase (decrease) in cash and cash equivalents during the year | **2,870** | 1,071 |
| Cash and cash equivalents, beginning of the year | **6,151** | 5,080 |
| Cash and cash equivalents, end of the year | **9,021** | 6,151 |

## 1. ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Significant areas requiring the use of management estimates relate to the determination of the provision for land development costs and potential impairment of assets. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

### a) Basis of consolidation

These consolidated financial statements include:

(i) The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies (the "Company"):
 Melcor Developments Arizona, Inc.
 Melcor Lakeside Inc.
 Stanley Investments Inc.

(ii) Investments in thirteen joint ventures (2004 – thirteen) are accounted for using the proportionate consolidation method.

### b) Recognition of revenue

Revenue is recognized in each business segment as follows:

(i) Community Development – revenue from the sale of land is recognized when a minimum 15% of the sale price has been received, the sale is unconditional and possession has been granted.

(ii) Investment Property – rental revenue from properties is recognized over the term of the related lease agreement.

(iii) Recreation Property – revenue from golf courses is recognized as services are provided.

### c) Capitalization of costs

(i) Community Development – The Company capitalizes all direct costs relating to land inventory including carrying costs such as property taxes, interest on debt specifically related to the project and other costs net of any rental income that may be received. Where the net realizable value of any property in land inventory does not exceed its capitalized carrying value, all additional carrying costs relating to the property are charged to current operations and are not capitalized. General administrative overhead expenses are not allocated and capitalized to properties.

(ii) Property Development and Investment Property – For acquired and constructed properties, building revenues and operating costs are capitalized as part of the cost of the property until the property is 75% occupied by tenants, subject to a reasonable period dependent on the nature of the property.

### d) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term securities with maturity dates of less than three months from the date they were acquired. These items are carried at cost or amortized cost as appropriate.

### e) Land inventory

Land inventory is recorded at the lower of cost and net realizable value and includes undeveloped land costs, capitalized carrying costs related to holding the land and development costs to build infrastructure. The estimated unexpended portion of costs to complete building the infrastructure, which are classified as "Provision for land development costs", are recorded as a liability at the time that a lot sale is recorded. Whenever this liability is known to be materially different from the actual costs incurred, an adjustment is made to the liability with a corresponding adjustment to cost of sales. The cost of land and carrying costs are allocated to each phase of development on a prorated acreage basis at the time a plan is registered with a municipality. The cost of sale of a lot is allocated on the basis of the estimated total cost of the project prorated by anticipated selling price of the lot over the anticipated selling price of the entire project at the date of plan registration.

### f) Investment properties

Commercial properties and the manufactured home community are amortized using the straight line method based upon an estimated useful life of 40 to 60 years. Golf courses and related assets are amortized using the straight line method based upon their estimated useful lives at rates from 4% to 30%.

### g) Capital assets

Capital assets are amortized using the declining balance method of amortization, over their estimated useful lives, at rates from 10% to 30%.

### h) Deferred costs and other assets

Deferred costs and other assets includes prepaid expenses, sundry assets, tenant leasing costs and those major repairs which are recoverable from tenants. These assets are amortized on a straight line basis over the estimated useful lives or lease period and are recorded at the lower of cost less accumulated amortization and net realizable value.

### i) Impairment of long lived assets

Long lived assets include investment properties, capital assets and tenant leasing costs. An impairment is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized, is measured as the amount by which the carrying value exceeds its fair value.

### j) Income taxes

Future income taxes are recognized at substantively enacted tax rates for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantial enactment.

### k) Foreign currency translation

The Company's foreign operation is of a self-sustaining nature. Assets and liabilities of the foreign operation are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Gains or losses on translation are shown as a separate component of shareholders' equity.

### l) Per share amounts

The Company uses the treasury stock method for calculation of diluted earnings per share under which deemed proceeds from the exercise of options are considered to be used to reacquire common shares at an average share price.

### m) Stock option plan

The Company uses the fair value based method of accounting for stock options issued to employees. Under this method, the estimated fair value of options on the date of grant is recognized as compensation expense over the period in which the employee services are rendered.

## 2. Changes in Accounting Policies and Estimates

### Generally Accepted Accounting Principles ("GAAP"):

A new standard became effective January 1, 2004, for identifying appropriate sources of generally accepted accounting principles, and the doctrines that constitute generally accepted accounting principles. Effective with the adoption of this standard, the Company has changed its method of amortization on all commercial properties and the manufactured home community, from the sinking fund method to the straight line method on a prospective basis. This change resulted in an effective annual amortization expense in 2004, of approximately $644,000 more than would have been recognized under the sinking fund method. See "Change in Estimates" below.

### Change In Estimates:

Effective with the adoption of the straight line method of amortization for certain investment property assets, the Company reviewed the useful lives of its investment properties. The Company determined that it's investment property buildings have a useful life of 40 to 60 years. This change in estimate has been accounted for prospectively and resulted in an effective annual amortization expense in 2004 of approximately $389,000 less than would have been recognized under previous estimates of useful lives.

### Impairment of Long-Lived Assets:

A new standard is in effect for recognizing, measuring and disclosing impairment of long-lived assets held for use. The standard requires that an impairment loss be recognized in an amount equal to the difference between carrying value and fair value when the carrying value of a long-lived asset exceeds the undiscounted future cash flows. A recoverability test is performed on asset groups as events or circumstances change in order to determine whether or not the assets are impaired. The impairment is measured as the amount by which the carrying value exceeds its fair value. The Company adopted the standard for the fiscal year commencing January 1, 2004 and after having completed a review of its assets, concluded that there was no financial statement impact resulting from the adoption.

## Asset Retirement Obligations:

A new standard became effective January 1, 2004, for recognizing, measuring and disclosing liabilities for asset retirement obligations and the associated asset retirement costs. The Company concluded that adoption of this standard does not result in the recognition of an asset retirement obligation.

## 3. Agreements Receivable

Agreements receivable are due within one year except for $27,000,000 (2004 – $10,700,000 due in 2006) which is due in 2007. Subsequent to the interest adjustment date, which provides an interest relief period of four months to qualifying registered builders, these receivables earn interest at prime plus one percent (6.00% at December 31, 2005 and 5.25% at December 31, 2004) and are secured by the specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region.

## 4. Land Inventory

| ($000s) | 2005 | 2004 |
|---|---|---|
| Undeveloped land and carrying costs | 123,599 | 112,230 |
| Pre-development costs | 29,579 | 10,779 |
| Developed land inventory cost | 48,220 | 40,685 |
| | 201,398 | 163,694 |

During the year the Company purchased land in the amount of $29,774,000 (2004 – $22,749,000) and received vendor financing in the amount of $13,035,000 (2004 – $12,395,000).

## 5. Investment Properties

| ($000s) | | 2005 | | | 2004 | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Commercial properties | 76,953 | (8,128) | 68,825 | 53,663 | (6,826) | 46,837 |
| Properties under development | 8,789 | - | 8,789 | 2,172 | - | 2,172 |
| Manufactured home community and related assets | 3,493 | (485) | 3,008 | 3,493 | (417) | 3,076 |
| Golf courses and related assets | 9,231 | (3,168) | 6,063 | 5,892 | (3,047) | 2,845 |
| | 98,466 | (11,781) | 86,685 | 65,220 | (10,290) | 54,930 |

## 6. Capital Assets

| ($000s) | | 2005 | | | 2004 | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Computerware and furniture | 985 | (664) | 321 | 883 | (601) | 282 |
| Other buildings and equipment | 31 | (25) | 6 | 31 | (22) | 9 |
| | 1,016 | (689) | 327 | 914 | (623) | 291 |

## 7. Deferred Costs and Other Assets

| ($000s) | 2005 | 2004 |
|---|---|---|
| Tenant leasing costs | 6,048 | 4,687 |
| Major repairs | 2,305 | 1,808 |
| Sundry prepaids | 173 | 988 |
| Sundry inventory | 251 | 265 |
| | 8,777 | 7,748 |

The Company paid tenant leasing costs of $2,506,000 during the year (2004 – $1,696,000) and amortized $1,145,000 (2004 – $884,000) of tenant leasing cost against respective lease revenues.

During the year, the Company incurred $830,000 in major repairs recoverable from tenants (2004 – $668,000) and amortized $333,000 (2004 – $215,000) into building operating costs.

## 8. Bank Operating Loan

The Company has an available credit facility with approved loan limits of $43,250,000 (2004 – $29,650,000) with a major chartered bank. The amount currently used is $16,026,000 (2004 – $10,167,000). The Company has pledged agreements receivable, specific lot inventory and a general security agreement as collateral for its credit facility. This facility may be terminated by the bank upon one year's notice. Interest is paid monthly at rates varying from prime plus 0.5% to prime plus 1.0% (5.50% – 6.00% at December 31, 2005 and 4.75% – 5.25% at December 31, 2004).

## 9. Debt on Land Inventory

| ($000s) | 2005 | 2004 |
|---|---|---|
| Agreements payable with interest at the following rates: | | |
| Fixed rates of 4.0% to 6.25% | **35,822** | 32,949 |
| Variable rates of prime plus 1.0% to prime plus 1.25% (6.00% to 6.25% at Dec. 31/05 and 5.25% to 5.5% at Dec. 31/04) | **14,656** | 7,362 |
| | **50,478** | 40,311 |

During the year, the Company received vendor financing on land purchases of $13,035,000 (2004 – $12,395,000) obtained bank financing of $11,540,000 (2004 – $ Nil) and made debt repayments of $14,408,000 (2004 – $7,970,000).

Specific land inventory with a book value of $85,283,000 (2004 – $80,565,000) has been pledged as collateral for the above debt. The weighted average interest rate of agreements payable, based on year end balances, is 4.9% (2004 – 4.8%).

The agreements mature in 2006 to 2012 and the minimum principal payments due within each of the next five years are as follows: 2006 – $11,871,000; 2007 – $11,483,000; 2008 – $16,644,000; 2009 – $4,354,000; 2010 – $3,304,000.

## 10. Debt on Investment Properties

| ($000s) | 2005 | 2004 |
|---|---|---|
| Mortgage amortized over 15 years with interest at prime plus 1.25% (6.25% at Dec. 31/05 and 5.5% at Dec. 31/04) | **1,438** | 2,400 |
| Mortgages amortized over 15 to 25 years at fixed rates varying from 4.80% to 7.53% (2004 - 5.33% to 7.82%) | **67,994** | 33,556 |
| | **69,432** | 35,956 |

Specific real estate with a net book value of $69,829,000 (2004 – $41,301,000) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average interest rate for mortgages, based on year end balances, is 5.8% (2004 – 6.4%).

Principal payments due within each of the next five years, assuming renewal at similar terms are: 2006 – $2,189,000; 2007 – $2,319,000; 2008 – $2,330,000; 2009 – $2,282,000; 2010 – $2,416,000.

Principal payments due within each of the next five years assuming no renewal are: 2006 – $11,925,000; 2007 – $1,854,000; 2008 – $9,700,000; 2009 – $1,793,000; 2010 – $16,078,000.

## 11. Future Income Taxes

| ($000s) | 2005 | 2004 |
|---|---|---|
| Investment property book values in excess of tax values | **3,991** | 3,197 |
| Reserve on amounts due in subsequent years | **9,948** | 5,036 |
| Interest and other costs deducted for tax purposes | **1,159** | 1,150 |
| Tenant leasing costs | **2,627** | 1,921 |
| | **17,725** | 11,304 |

The reversal of future income taxes is dependent upon the timing of development and sale of the related assets and on the timing of the receipt of cash relating to agreements receivable. Income taxes paid during the year were $4,678,000 (2004 – $12,287,000). Income tax expense is calculated as follows:

| ($000s) | 2005 | 2004 |
|---|---|---|
| Income tax at statutory rate (2005 – 33.62%; 2004 – 33.87%) | **20,832** | 9,593 |
| Increase (decrease) resulting from: | | |
| Benefit recorded for expected future tax rate reductions | **(680)** | (715) |
| Non deductible expenses and other | **33** | 8 |
| Income tax expense | **20,185** | 8,886 |

## 12. Share Capital

### a) Common Shares

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Number of Shares Issued** | **Amount ($000s)** | Number of Shares Issued | Amount ($000s) |
| Common shares, beginning of the year | **3,054,503** | **8,024** | 3,082,803 | 7,523 |
| Share options exercised | **83,059** | **2,162** | 33,700 | 661 |
| Shares purchased and cancelled | **(62,000)** | **(163)** | (62,000) | (160) |
| Common shares, end of the year | **3,075,562** | **10,023** | 3,054,503 | 8,024 |

| | |
|---|---|
| Authorized: | |
| Common shares | 10,000,000 |
| First Preferred Shares, non-voting | 5,000,000 |

During the year, the Company purchased 62,000 (2004 – 62,000) common shares pursuant to the Normal Course Issuer Bid Circular at an average price of $53.00 (2004 – $49.39) per share for total consideration of $3,286,000 (2004 – $3,062,280). At December 31, 2005 the current bid allowed the Company to purchase 152,000 common shares prior to the expiry of the bid on September 15, 2006.

### b) Stock Option Plan

On September 28, 2000 the Company's Board of Directors approved a stock option plan ("the Plan"). Under the Plan, the Company may grant stock options to full-time salaried employees and designated contractors after one year of service. The plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. The stock options vest at 20% per year and expire seven years from the date of issuance and may be exercised into common shares on a one-for-one basis.

### c) Stock Options Available for Granting

| | **2005** | 2004 |
|---|---|---|
| Stock options available, beginning of the year | **33,040** | 33,200 |
| Stock options granted | **(23,200)** | (1,200) |
| Stock options forfeited | **640** | 1,040 |
| Stock options available, end of the year | **10,480** | 33,040 |

The Company has 132,141 common shares reserved for issuance under the plan (2004 – 215,200).

### d) Stock Options Outstanding Under the Plan

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted Average Option** | Number of Options | Weighted Average Option Price |
| Stock options outstanding, beginning of the year | **182,160** | **28.70** | 215,700 | 27.13 |
| Stock options granted | **23,200** | **70.64** | 1,200 | 46.24 |
| Stock options exercised | **(83,059)** | **26.04** | (33,700) | 19.61 |
| Stock options forfeited | **(640)** | **18.73** | (1,040) | 18.73 |
| Stock options outstanding, end of the year | **121,661** | **38.56** | 182,160 | 28.70 |

### e) Stock Options Outstanding and Exercisable Under the Plan

| **Stock Option Expiry Date** | Outstanding Stock Options (#) | Stock Option Price Per Share ($) | Stock Options Exercisable at Dec. 31, 2005 |
|---|---|---|---|
| September 28, 2007 | 27,481 | 18.73 | 27,481 |
| July 26, 2008 | 1,900 | 24.28 | - |
| July 25, 2009 | 5,360 | 38.58 | 1,440 |
| October 25, 2009 | 55,000 | 35.30 | 23,000 |
| December 12, 2009 | 1,560 | 34.95 | 320 |
| October 28, 2010 | 6,080 | 39.30 | 500 |
| July 27, 2011 | 1,080 | 46.24 | 120 |
| July 26, 2012 | 23,200 | 70.64 | - |
| | 121,661 | | 52,861 |

## f) Stock-Based Compensation Expense

The following weighted-average assumptions were used in the Black-Scholes calculations for stock options granted:

| | 2005 | 2004 |
|---|---|---|
| Annualized volatility | **16%** | 16% |
| Risk-free interest rate | **3.27%** | 3.77% |
| Annual dividend rate | **2.55%** | 3.35% |
| Expected life of options in years | **5** | 5 |

The fair value of stock options granted during the year was $8.92 per stock option (2004 – $5.81), which, resulted in a $78,000 (2004 – $9,000) charge to stock-based compensation expense with a corresponding credit to contributed surplus.

## 13. Currency Translation Adjustment

| ($000s) | 2005 | 2004 |
|---|---|---|
| Cumulative unrealized gain/(loss) at the beginning of the year | **(548)** | 2 |
| Unrealized gain/(loss) for the year on the translation of net assets | **(283)** | (550) |
| Cumulative unrealized gain/(loss) at the end of the year | **(831)** | (548) |

This adjustment represents the net unrealized foreign currency translation gain (loss) on the Company's net investment in its self-sustaining foreign operation.

## 14. Per Share Amounts

| (#) | 2005 | 2004 |
|---|---|---|
| Basic weighted average common shares outstanding during the year | **3,027,981** | 3,087,495 |
| Dilutive effect of stock options | **67,124** | 74,395 |
| Diluted weighted average common shares | | 3,161,890 |

Basic net earnings per share is calculated by dividing the Company's net earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated to give dilutive effect to stock options.

## 15. Financial Guarantees

In the normal course of operations, the Company issues letters of credit as security for the completion of obligations pursuant to development agreements signed with municipalities. At December 31, 2005 the Company had $22,939,000 (December 31, 2004 – $15,886,000) in letters of credit outstanding and recorded a net liability of $29,026,000 (December 31, 2004 – $18,962,000 ) in provision for land development costs in respect of these development agreements.

Normally, obligations secured by the letters of credit diminish as the developments proceed, through a series of staged reductions over a period of years (average of three to four years) and are ultimately extinguished when the municipality has issued final completion certificates.

The Company enters into joint venture agreements and, in doing so, may take on risk beyond its proportionate interest in the joint venture. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of the Company's covenant will backstop that of the other joint venture participant(s) who also provide similar guarantees. The Company will have to perform on its guarantee only if a joint venture participant was in default of their guarantee. At December 31, 2005 the Company had guaranteed $11,264,000 (2004 – $10,563,000) in loans and $5,300,000 – (2004 – $3,580,000) in letters of credit in support of other participant's interests.

The loan guarantees include those which are ongoing, as they relate to the relevant lines of credit, and those which have staged reductions as they relate to the financing of specific assets or projects such as infrastructure loans, short-term land loans or mortgages.

To mitigate the possibility of financial loss, Melcor is diligent in its selection of joint venture participants. As well, Melcor has remedies available within the joint venture agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint venture participants.

## 16. Interest Expense

| ($000s) | 2005 | 2004 |
|---|---|---|
| Interest on bank operating loan | **804** | 124 |
| Interest on debt – land inventory | **1,934** | 1,964 |
| Interest on debt – investment properties | **3,092** | 2,321 |
| | **5,830** | 4,409 |
| Less interest on land inventory debt capitalized | **(1,934)** | (1,946) |
| | **3,896** | 2,463 |

Cumulative interest capitalized on land inventory at the end of the year is $7,476,000 (2004 – $6,990,000). Interest paid during the year was $5,665,000 (2004 – $4,186,000).

## 17. Interest Rate Risk

The Company's debt consists of loans that are subject to interest rate fluctuations. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $321,000 (2004 – $199,000) based upon year end debt balances. This amount is partially offset by the interest earned on agreements receivable which is also subject to interest rate fluctuations.

## 18. Joint Ventures

| | | | | | Cash Flows From (Used In) | | |
|---|---|---|---|---|---|---|---|
| ($000s) | Assets | Liabilities | Revenue | Earnings | Operating Activities | Investing Activities | Financing Activities |
| **2005** | **108,036** | **57,849** | **45,666** | **14,266** | **12,882** | **(6,113)** | **(346)** |
| 2004 | 85,600 | 44,968 | 34,117 | 11,133 | 4,897 | (2,833) | 2,689 |

The above table includes the Company's proportionate share of the assets, liabilities, revenue, earnings and cash flow information of thirteen joint ventures (2004 – thirteen) that are proportionately consolidated in these financial statements. The company's proportionate interest of these joint ventures ranges from 33% – 75% ownership.

## 19. Segmented Information

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different management skills and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

In the following schedules, earnings from operations before income tax expense has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, are the costs of corporate debt and general corporate expenses. The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions.

Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties. Any inter-segment sales and the unrealized profits therefrom, have been eliminated.

### *Community Development*

This division is responsible for purchasing and developing land to be sold as residential, industrial and commercial lots.

### *Property Development*

This division develops investment properties which, when constructed and at least 75% leased, are transferred to the Investment Property Division which will hold and manage the asset. The transfer is at the Company's estimate of fair value and is recorded as revenue in the Property Development Division.

### *Investment Property*

This division owns 23 properties (2004 – 20 properties), which it holds to earn rental income.

### *Recreation Property*

This division owns and manages two 18-hole golf course operations (one of which is 60% owned) and owns a golf course under construction.

| Revenue ($000s) | Segment Revenue (2005) | Inter-segment Eliminations (2005) | External Revenue (2005) | Segment Revenue (2004) | Inter-segment Eliminations (2004) | External Revenue (2004) |
|---|---|---|---|---|---|---|
| | **For the year ended December 31, 2005** | | | For the year ended December 31, 2004 | | |
| Community development | **149,246** | **(6,225)** | **143,021** | 75,359 | (1,518) | 73,841 |
| Property development | **9,392** | **(9,301)** | **91** | 4,058 | (4,058) | - |
| Investment property | **15,749** | **(479)** | **15,270** | 12,088 | (207) | 11,881 |
| Recreation property | **3,228** | **(110)** | **3,118** | 2,756 | (139) | 2,617 |
| | **177,615** | **(16,115)** | **161,500** | 94,261 | (5,922) | 88,339 |

| Earnings ($000s) | Segment Earnings (2005) | Inter-segment Eliminations (2005) | External Earnings (2005) | Segment Earnings (2004) | Inter-segment Eliminations (2004) | External Earnings (2004) |
|---|---|---|---|---|---|---|
| Community development | **66,566** | **(2,881)** | **63,685** | 29,589 | 293 | 29,882 |
| Property development | **2,093** | **(2,250)** | **(157)** | 213 | (473) | (260) |
| Investment property | **2,279** | **-** | **2,279** | 1,367 | (126) | 1,241 |
| Recreation property | **646** | **-** | **646** | 468 | (115) | 353 |
| | **71,584** | **(5,131)** | **66,453** | 31,637 | (421) | 31,216 |
| **Non-allocated items:** | | | | | | |
| Interest income | | | **416** | | | 30 |
| Interest expense | | | **(389)** | | | - |
| General and administrative expenses | | | **(4,519)** | | | (2,923) |
| Earnings before income tax expense | | | **61,961** | | | 28,323 |
| Income tax expense | | | **(20,185)** | | | (8,886) |
| Net earnings for the year | | | **41,776** | | | 19,437 |

| Interest ($000s) | Per Segment (2005) | Inter-segment Eliminations (2005) | Per Financial Statement (2005) | Per Segment (2004) | Inter-segment Eliminations (2004) | Per Financial Statement (2004) |
|---|---|---|---|---|---|---|
| **Interest Income:** | | | | | | |
| Community development | **1,449** | **-** | **1,449** | 1,545 | - | 1,545 |
| Property development | **-** | **-** | **-** | - | - | - |
| Investment property | **22** | **-** | **22** | 11 | - | 11 |
| Recreation property | **-** | **-** | **-** | - | - | - |
| Non-allocated | **469** | **(53)** | **416** | 114 | (84) | 30 |
| | **1,940** | **(53)** | **1,887** | 1,670 | (84) | 1,586 |
| **Interest Expense:** | | | | | | |
| Community development | **(468)** | **53** | **(415)** | (225) | 84 | (141) |
| Property development | **-** | **-** | **-** | - | - | - |
| Investment property | **(2,914)** | **-** | **(2,914)** | (2,234) | - | (2,234) |
| Recreation property | **(178)** | **-** | **(178)** | (88) | - | (88) |
| Non-allocated | **(389)** | **-** | **(389)** | - | - | - |
| | **(3,949)** | **53** | **(3,896)** | (2,547) | 84 | (2,463) |

The community development segment includes the operations of its wholly owned subsidiary in the United States. A summary of its activities are as follows:

| ($000s) | 2005 | 2004 |
|---|---|---|
| External revenue | **4,191** | 4,006 |
| Earnings | **940** | 920 |
| Interest Income | **173** | 316 |
| Assets | **8,286** | 7,137 |
| Equity | **7,747** | 7,091 |

### Other Segmented Information

| ($000s) | Amortization | | Capital Expenditures | | Total Carrying Value of Identifiable Assets | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| Community development | **3** | 3 | **-** | - | **288,387** | 209,321 |
| Property development | **-** | - | **9,583** | 2,682 | **8,324** | 3,776 |
| Investment property | **1,375** | 1,148 | **16,505** | 2,996 | **80,943** | 56,085 |
| Recreation property | **244** | 241 | **3,575** | 273 | **6,238** | 3,006 |
| Common | **60** | 94 | **104** | 39 | **12,221** | 10,160 |
| | **1,682** | 1,486 | **29,767** | 5,990 | **396,113** | 282,348 |

## 20. Fair Value of Financial Instruments

Financial instruments consists of cash and cash equivalents, accounts receivable, income taxes receivable, agreements receivable, bank operating loan, accounts payable and accrued liabilities, debt on land inventory, and debt on investment properties. The Company believes that the fair value of financial instruments approximates their carrying values. The fair value of cash and cash equivalents, accounts receivable, income taxes receivable, bank operating loan, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

The fair value of agreements receivable are estimated based on the interest bearing nature of these instruments which are at rates consistent with market rates for debt instruments with similar terms to maturity. The fair value of debt on land inventory and debt on investment properties are estimated based on quoted market rates for similar instruments with similar terms.

## 21. Definitions for Statements of Cash Flows

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of land inventory and the amount related to the application of the current rate method of translation of the US subsidiary, which is a decrease of $283,000 (2004 – a decrease of $550,000). Purchase of land inventory is the cost of land net of vendor financing received (see Note 4 – Land Inventory).

Operating assets and liabilities is defined as the net change of accounts receivable, income taxes receivable, deferred costs and other assets, accounts payable and accrued liabilities.

# Management's Responsibility for Financial Reporting

The Annual Report, including the consolidated financial statements, is the responsibility of the management of the Company. The financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants in all material respects. Financial information contained elsewhere in this Report is consistent with the information contained in the financial statements.

Management maintains a system of internal controls which provides reasonable assurance that the assets of the Company, its subsidiaries and joint ventures are safeguarded and which facilitates the preparation of relevant, timely and reliable financial information which reflects, where necessary, management's best estimates and judgements based on informed knowledge of the facts.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the consolidated financial statements. The Board has appointed an Audit Committee comprising four unrelated and independent directors to approve, monitor, evaluate, advise or make recommendations on matters affecting the external audit, the financial reporting and the accounting controls, policies and practices of the Company under its terms of reference.

The Audit Committee meets at least four times per year with management and with the independent auditors to satisfy itself that they are properly discharging their responsibilities. The consolidated financial statements and the Management Discussion and Analysis have been reviewed by the Audit Committee and approved by the Board of Directors of Melcor Developments Ltd.

PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders, have examined the consolidated financial statements and have read Management's Discussion and Analysis. Their report as auditors is set forth below.

# Auditors' Report

To the Shareholders of Melcor Developments Ltd.

We have audited the consolidated balance sheets of Melcor Developments Ltd. as at December 31, 2005 and 2004 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Alberta
February 23, 2006

# Five Year Review

| Balance Sheet ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | **9,021** | 6,151 | 5,080 | 7,105 | 1,325 |
| Accounts receivable | **4,570** | 2,908 | 2,336 | 2,914 | 2,912 |
| Income taxes receivable | **-** | 3,118 | - | - | - |
| Agreements receivable | **85,335** | 43,508 | 46,904 | 57,094 | 43,704 |
| Land inventory | **201,398** | 163,694 | 141,004 | 116,904 | 88,655 |
| Investment properties | **86,685** | 54,930 | 50,396 | 42,412 | 37,210 |
| Capital assets | **327** | 291 | 321 | 298 | 298 |
| Deferred costs and other assets | **8,777** | 7,748 | 5,661 | 5,068 | 3,114 |
| | **396,113** | 282,348 | 251,702 | 231,795 | 177,218 |
| **Liabilities and Shareholders' Equity** | | | | | |
| Bank operating loan | **16,026** | 10,167 | 1,642 | 839 | 11,929 |
| Accounts payable and accrued liabilities | **21,125** | 12,107 | 9,347 | 14,390 | 9,699 |
| Income taxes payable | **5,973** | - | 492 | 2,409 | 1,616 |
| Provision for land development costs | **29,026** | 18,962 | 15,072 | 13,763 | 6,371 |
| Debt on land inventory | **50,478** | 40,311 | 35,885 | 29,141 | 12,776 |
| Debt on investment properties | **69,432** | 35,956 | 37,335 | 31,170 | 16,599 |
| Future income taxes | **17,725** | 11,304 | 11,192 | 13,572 | 11,510 |
| Share capital | **10,023** | 8,024 | 7,523 | 6,946 | 6,705 |
| Retained earnings | **176,305** | 145,517 | 133,214 | 119,565 | 100,013 |
| | **396,113** | 282,348 | 251,702 | 231,795 | 177,218 |

| Statement of Earnings ($000s) | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenue | **161,500** | 88,339 | 80,035 | 110,565 | 82,607 |
| Cost of sales | **(86,343)** | (52,107) | (46,554) | (67,630) | (50,612) |
| | **75,157** | 36,232 | 33,481 | 42,935 | 31,995 |
| Interest income | **1,887** | 1,586 | 2,389 | 1,716 | 1,416 |
| Interest expense | **(3,896)** | (2,463) | (2,363) | (1,530) | (1,765) |
| General and administrative expenses | **(9,442)** | (5,546) | (6,493) | (7,156) | (6,006) |
| Depreciation expense | **(1,682)** | (1,486) | (1,091) | (906) | (832) |
| Gain/(loss) on sale of investment properties | **(63)** | - | 1,578 | 1,004 | 34 |
| Earnings before income tax expense | **61,961** | 28,323 | 27,501 | 36,063 | 24,842 |
| Income tax expense | **(20,185)** | (8,886) | (9,095) | (12,974) | (8,871) |
| Net earnings for the year | **41,776** | 19,437 | 18,406 | 23,089 | 15,971 |

| Statistical ($) | | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| Earnings per share | - basic | **13.80** | 6.30 | 6.00 | 7.58 | 5.26 |
| Earnings per share | - diluted | **13.50** | 6.15 | 5.86 | 7.41 | 5.21 |
| Number of shares | - year end (000s) | **3,076** | 3,055 | 3,083 | 3,052 | 3,046 |
| Shareholders equity | - book value per share | **60.58** | 50.27 | 45.65 | 41.45 | 35.04 |
| | - total ($000s) | **186,328** | 153,541 | 140,737 | 126,511 | 106,718 |
| Dividends | - per share | **2.50** | 1.20 | 1.10 | 1.00 | .90 |
| Share price range | - per share | **51.00-120.00** | 44.50-55.00 | 37.00-48.00 | 26.50-42.50 | 20.00-28.50 |

# MELCOR 2005 PERFORMANCE MEASURES (SELECTED)

| | 2001 | % change | 2002 | % change | 2003 | % change | 2004 | % change | 2005 |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS ($000)<br>Average annual increase = 30.9% | 177,218 | 30.8% | 231,795 | 8.6% | 251,806 | 12.1% | 282,348 | 40.3% | **396,113** |
| SHAREHOLDERS' EQUITY ($000)<br>Average annual increase = 18.6% | 106,718 | 18.5% | 126,511 | 11.2% | 140,737 | 9.1% | 153,541 | 21.4% | **186,328** |
| REVENUE ($000)<br>Average annual increase = 23.9% | 82,607 | 33.8% | 110,565 | -27.6% | 80,035 | 10.4% | 88,339 | 82.8% | **161,500** |
| GROSS MARGIN<br>Five year average = 42% | 39% | | 39% | | 42% | | 41% | | **47%** |
| ADMIN. EXPENSES / REVENUE<br>Five year average = 6.8% | 7.3% | -11.0% | 6.5% | 25.3% | 8.1% | -11.7% | 6.3% | -18.4% | **5.8%** |
| EARNINGS (EBT) ($000)<br>Average annual increase = 37% | 24,842 | 45% | 36,063 | -24% | 27,501 | 3% | 28,323 | 119% | **61,961** |
| BASIC EARNINGS PER SHARE ($)<br>Average annual increase = 41% | 5.26 | 44% | 7.58 | -21% | 6.00 | 6% | 6.30 | 116% | **13.80** |
| AVERAGE SHARE PRICE ($)<br>Average annual increase = 61% | 24.79 | 48% | 36.60 | 10% | 40.19 | 21% | 48.50 | 75% | **85.03** |
| DIVIDEND ($)<br>Average annual increase = 44.4% | 0.90 | 11.1% | 1.00 | 10.0% | 1.10 | 9.1% | 1.20 | 108.3% | **2.50** |
| DIVIDEND YIELD<br>Five year average = 2.8% | 3.6% | | 2.7% | | 2.7% | | 2.5% | | **2.9%** |
| BOOK VALUE PER SHARE ($)<br>Average annual increase = 18.2% | 35.04 | 18.3% | 41.45 | 10.1% | 45.65 | 10.1% | 50.27 | 20.6% | **60.58** |
| AVERAGE BV PER SHARE ($)<br>Average annual increase = 17% | 32.81 | 17% | 38.25 | 14% | 43.55 | 10% | 47.96 | 16% | **55.42** |
| AVG. MARKET / AVG. BOOK<br>Five year average = 1.08 | 0.76 | | 0.96 | | 0.92 | | 1.01 | | **1.53** |
| PRICE EARNINGS RATIO<br>Five year average = 6.0 | 4.7 | | 4.8 | | 6.7 | | 7.7 | | **6.2** |
| RETURN ON EQUITY<br>Five year average = 17.8% | 16.0% | | 19.8% | | 13.8% | | 13.2% | | **24.6%** |
| RETURN ON ASSETS<br>Five year average = 9.7% | 9.5% | | 11.3% | | 7.6% | | 7.3% | | **12.3%** |
| DEBT / EQUITY RATIO<br>Five year average = 0.88 | 0.66 | | 0.83 | | 0.79 | | 0.84 | | **1.13** |
| ASSET TURNOVER<br>Five year average = 42.9% | 49.2% | | 54.1% | | 33.1% | | 33.1% | | **47.6%** |

*Calculations:*

Price Earnings Ratio is the average share price for the year divided by the basic earnings per share for that year.

Return on Equity is the net earnings after income tax expense for the year divided by the average equity during the year.

Return on Assets is the net earnings after income tax expense for the year divided by the average assets during the year.

# Corporate Information

## Corporate Office
900, 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8
(780) 423-6931
info@melcor.ca
www.melcor.ca

## Directors
**William D. Grace (1) (2)**
Corporate Director
Edmonton, Alberta

**W. Garry Holmes (1)**
Corporate Director
Edmonton, Alberta

**Lou D. Hyndman (1) (2)**
Partner
Field LLP,
Barristers & Solicitors
Edmonton, Alberta

**Andrew J. Melton**
Partner
Avison Young Commercial Real Estate
Calgary, Alberta

**Timothy C. Melton**
Executive Chairman
Melcor Developments Ltd.
Edmonton, Alberta

**Bruce Saville (2)**
President
Saville Interest Group Inc.
Edmonton, Alberta

**Ross A. Grieve (1) (2)**
President & CEO
PCL Construction Group Inc.
Edmonton, Alberta

**Ralph B. Young**
President & Chief
Executive Officer
Melcor Developments Ltd.
Edmonton, Alberta

### Notice of Annual Meeting
The annual meeting of Shareholders will be held at The Fairmont Hotel Macdonald, Wedgwood Room, 10065-100 Street, Edmonton, Alberta, Canada on the 12th day of April, 2006 at 11:00 am MDT.

(1) Audit Committee
(2) Governance Committee
(3) Management Committee

## Officers
**Timothy C. Melton (3)**
Executive Chairman

**Ralph B. Young (3)**
President & Chief Executive Officer

**Michael D. Shabada (3)**
Vice-President, Finance and
Chief Financial Officer

**Brett A. Halford (3)**
Vice-President, Administration

**W. Peter Daly (3)**
Vice-President,
Community Development Division

## Community Development
### *Edmonton Region*
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Edmonton, Alberta T5J 1Y8
(780) 423-6931

**W. Peter Daly**
Vice-President,
Community Development Division

### *Kelowna Region*
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(250) 717-8390

**Randy Sieben**
Vice-President and Regional Manager

### *Calgary Region*
204, 400 Crowfoot Crescent N.W.
Calgary, Alberta T3G 5H6
(403) 283-3556

**Kent Hystad**
Vice-President and Regional Manager

**Dave Poppitt**
Vice-President, Special Projects

### *Red Deer Region*
502 Parkland Square
Red Deer, Alberta T4N 6M4
(403) 343-0817

**Guy Pelletier**
Vice-President and Regional Manager

### *Lethbridge Region*
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(403) 328-0475

**Neil Johnson**
Vice-President and Regional Manager

## Property Development
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**Brian Baker**
Vice President,
Property Development Division

## Investment Property
### *Commercial Property*
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(780) 423-6931

**Darin Rayburn**
Vice President,
Investment Property Division

### *Watergrove Manufactured Home Community*
400, 99 Arbour Lake Road NW
Calgary, Alberta T3G 4E4
(403) 547-0200

**Doug Alton**
Manager

## Golf Courses
### *The Links At Spruce Grove*
P.O. Box 4268
Spruce Grove, Alberta T7K 3B4
(780) 962-4653

**Pierre Beauchemin**
Pro/Manager

**Glen Andersen**
Superintendent

### *Lewis Estates Golf Course*
8700 - 207 Street
Edmonton, Alberta T5T 6A4
(780) 489-1369

**Jerry Linquist**
Pro/Manager

**Rob Sklaruk**
Superintendent

## Finance and Administration
**Karen Albarda**
Controller

### Other Information
Share Transfer Agent:
CIBC Mellon Trust Company, Calgary & Toronto
Stock Exchange Listing:
The Toronto Stock Exchange (Stock symbol: MRD)
Auditors: PricewaterhouseCoopers LLP,
Chartered Accountants, Edmonton

MELCOR

DEVELOPMENTS LTD.